S. Hrg. 101-659

ABUSES IN FEDERAL STUDENT AID PROGRAMS

HEARINGS

BEFORE THE

PERMANENT
SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

FEBRUARY 20, 26, 1990

Printed for the use of the Committee on Governmental Affairs

28-765

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1990

S401-34

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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ABUSES IN FEDERAL STUDENT AID PROGRAMS

TUESDAY, FEBRUARY 20, 1990

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:05 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Sam Nunn, Chairman of the Subcommittee, presiding.

Present: Senators Nunn, Levin, Kohl, and Roth.

Staff Present: Eleanore J. Hill, Majority Chief Counsel; Daniel F. Rinzel, Minority Chief Counsel; David B. Buckley, Majority Chief Investigator; Cynthia L. Comstock, Majority Staff Assistant; Mariea Sweeney, Majority Staff Assistant; Grace McPhearson, Majority Investigator; Harold Lippman, Majority Investigator; Kim Wherry, Majority Counsel; Steve Levin, Minority Counsel; and Carla Martin, Minority Assistant Chief Clerk.

[Letter of authority follows:]

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

Pursuant to Rule 5 of the Rules of Procedure of the Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, permission is hereby granted for the Chairman, or any Member of the Subcommittee as designated by the Chairman, to conduct open and/or executive session hearings without a quorum of two members for the administration of oaths and the taking of testimony in connection with hearings on the Abuses in Federal Student Aid Programs to be held on February 20 and 26, 1990.

SAM NUNN,
Chairman.
WILLIAM V. ROTH, Jr.,
Ranking Minority Member.

OPENING STATEMENT OF SENATOR NUNN

Senator NUNN. The Subcommittee will come to order.

This morning the Permanent Subcommittee on Investigations begins a series of hearings on the subject of Federal student aid programs. Today and on February 26, the Subcommittee's primary concern will be the Federal student loan programs which have been recently identified by both the Office of Management and Budget and the General Accounting Office as "high risk" government programs that are particularly vulnerable to fraud, waste and abuse.

We cannot afford to ignore this type of warning signal from both OMB and GAO, given the astronomical growth not only of the student loan volume, but even more alarming, defaults on these loans in recent years. In 1989, the Department of Education administered $12.2 billion in borrowed principal for guaranteed student loans, compared to $4.8 billion in 1980. Since 1983, loan volume under the program has risen 83 percent, but defaults during the same time period have skyrocketed, climbing by an astounding 338 percent.

There is no question that the taxpayer is paying, and paying dearly, for the defaults under the program. According to the Department of Education the government paid out $1.98 billion for defaulted student loans in 1989. The Department now estimates that close to another $2 billion in Federal student loans will default in 1990 alone. That is $4 billion in two years lost to the taxpayers, to the government, to the treasury. Today the amount the Federal Government has paid in default claims since the student loan program was established in 1965 stands close to $10.5 billion. In all likelihood the amounts are going to grow in proportion to that in years to come, if not more, unless something is done.

As the default rate continues to rise, so have reports of misuse, abuse, and outright fraud in the student loan program. For example, as I believe the staff will report this morning. federally guaranteed loans have been given to students with addresses listed on the form as "403 Can't Read," another address, "Unknown Avenue," and another, "506 P.M. Street." If the system is relying on that type of information, it is little wonder that defaults have skyrocketed.

One area of particular concern to the Department of Education's Inspector General, among others, has been alleged misuse of the program by proprietary for-profit trade schools. The General Accounting Office has reported that proprietary school students accounted for 22 percent of program borrowers, but 44 percent of defaulters of loans made in 1983. A Department of Education study in 1986 estimated a 40 percent default rate for proprietary school students, and I strongly suspect, based on the evidence we have developed thus far, it is going to be worse in more recent years.

Let me say at the outset that the Subcommittee recognizes the very real need for quality vocational training and expertise in this country. Many trade and proprietary schools that participate in the student loan program are, I am sure, helping many Americans to become able and productive members of the job force. These legitimate schools are not our focus here this morning. Their purpose and their status as participants in the student loan program are not being questioned. Unfortunately, the practices of some unscrupulous schools have created a cloud of distrust around the entire private for-profit trade school industry. These are the schools we will be focusing on today and in the future hearings.

The Subcommittee's investigation is focused on reports that as a result of loopholes in the laws and regulations, the lax and inadequate oversight, and outright fraud, some individuals are using the student loan program for personal profiteering to the detriment of the students for whose benefit the program was intended and at the taxpayers' expense. As the staff will report this morning, unwary Americans are being lured into so-called educational schools by sophisticated sales pitches that offer promises of bright futures, high paying jobs and Federal loans for financing.

In fact, the students often end up with little or no training, no job, and a large bill to repay the student loan. In some cases the students recognize the training is useless and they withdraw midway and end up liable for the entire loan while the school operators pocket a handsome profit. As a result, the student is worse off than ever, often defaults on the loan, and the American taxpayer ultimately picks up the tab.

Just a few examples. In Georgia—and these are according to recent published reports—in Georgia, a school charges $4,800 for training for jobs in a medical office. The school keeps meticulous flow-charts on student loan funds but carelessly stores medical syringes and other medical supplies. The school's reference center has only a handful of books, while the telemarketing room has 75 manned phones recruiting low income students. The school's owner openly admits he bought a seven-student school in Connecticut so he could get accreditation, and acceptance in the student aid program for the Georgia school.

In Ohio an auto repair school operates out of a fruit stand but helps students finance enrollment through Federal student loans.

In Florida, Spanish speaking students are encouraged to get Federal student loans for courses taught only in English.

In Texas, a truck-driving school loses its accreditation and remains eligible for the student loan program by associating itself with an accredited liberal arts college in Kansas. Ninety percent of the truck-driving students receive Federal student aid with a default rate of 76 percent.

In Houston, Texas, a school sends buses and recruiters to homeless shelters in Dallas, San Antonio and New Orleans. The recruiters speak at the shelters and provide the residents with loan application forms and enrollment information. Enrollees return to the school on the buses, assured that they will receive free housing and an adequate monthly living allowance. Upon enrollment, the students discover the classrooms lack equipment and the instructors lack training. Within a few weeks the living allowance money has run out. State officials discover the problem when a local food bank calls to complain about the influx of students coming from the school for their daily noon meal.

These are just a few examples of the cases the Subcommittee has come across during the course of this investigation. This morning we have asked the General Accounting Office and the Inspector General of the Department of Education to give us their thoughts on the current status of Federal student loan programs, with particular emphasis on problems in the proprietary school area.

We will also receive testimony from the Subcommittee staff summarizing the results of their investigation on this issue. Their investigation to date has been an alarming one. In conducting an overall review of the student loan program, I believe they will testify that they have not yet found a single aspect of the program which is, in their view, operating effectively.

In closing, I do want to point out that the student loan program is not a totally new area of inquiry for this Subcommittee. Back in 1975 the Subcommittee also examined the Office of Education's management of the loan program, the default issue, and the unscrupulous practices of some trade schools. As I recall the testimony, though the dollar and loan amounts have since skyrocketed, the types of fraudulent schemes and abuses that today plague the program have not changed an awful lot since 1975.

At the time, Chairman Henry "Scoop" Jackson singled out the "unscrupulous individuals who pray on unsuspecting young people and parlay Federal funds into financial empires," through abuse of the student loan program. Unfortunately, and despite changes in legislation and regulations, we have apparently made little progress in combating and preventing this type of abuse in the last 15 years.

As we all know, the Federal student loan program was originally designed to help low and middle income students receive a quality education, specialized training and eventually a secure and well-paying job. It was clearly never intended to ensure soaring profits for schools whose main interest and expertise seems to be in the processing of Federal student loans. I am hopeful that these hearings will help to educate the Subcommittee, and particularly the oversight committees of the House and Senate that directly deal with these funds, and the authorizing and appropriating committees, and also the American public, not only on the extent of the problem, but also on what needs to be done to stop this kind of abuse in the future.

I want to express my thanks to the Ranking Minority Member, Senator Roth, and members of the Minority staff for their cooperation and full support during the course of this investigation. Also, I want to express my appreciation and that of the Subcommittee to the General Accounting Office and the Inspector General's Office of the Department of Education for the assistance they have given the Subcommittee staff in preparation for these hearings. We look forward to the testimony and to that of the other witnesses during the course of these hearings.

Senator Kohl?

OPENING STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you, Senator Nunn. I commend you on your willingness and the energy that you devote to hold these hearings. They are very, very important. I think people throughout our country are concerned about what happens to the money that they send here to Washington, whether it is for the savings and loan crisis, or the student loan crisis. There are tens and hundreds of billions of dollars that are flowing out from our coffers. The American people see what is happening.

This is but the latest crisis, and a very important one. And the question that they ask themselves is for what reason should they be sending their hard earned dollars to Washington if we in fact don't know how to manage the money that they send to us. I think that what is happening with respect to student loans is as good an example as you can find of the ways in which we here in Washington don't manage the taxpayers' money. So this is a very important hearing and talking about a very, very serious problem in our government, and I think that Senator Nunn is doing a great service to the country in holding this hearing and I am very pleased to be here.

[The prepared statement of Senator Kohl follows:]

PREPARED STATEMENT OF SENATOR KOHL

I appreciate the efforts of our distinguished Chairman, Mr. Nunn, in calling for these hearings.

A number of studies have called for increased technical skills of our nation's youth, if the U.S. is to be competitive in world markets in the 1990's. The United States needs a literate and technologically trained workforce.

However, while there is a growing need for advanced education, especially in the trade and technical areas, and in vocational education programs, there also is a growing problem of abuse in the federally financed student loan programs.

The financial resources of the Federal Government are limited, and we in Congress must be certain that these resources are being used in accordance with Congressional intent.

Perhaps eligibility requirements need to be changed in some student loan programs. It might be that states need to tighten up their licensing programs for post-secondary programs. This series of hearings will provide us the information necessary to make changes that might be needed in the student loan programs.

I thank the Chairman for providing us with an opportunity to carefully examine this issue, and look forward to hearing the testimony from those who have been looking into this matter in some detail.

Senator NUNN. Thank you very much, Senator Kohl.

Our first witness this morning, from the General Accounting Office, is Franklin Frazier, Director, Education and Employment Issues, Human Resources Division. Mr. Frazier's testimony will include a description of Federal aid available to students, the cost of the programs, and an analysis of the default problem.

Accompanying Mr. Frazier are Mr. Joseph J. Eglin, the Assistant Director for Education Issues, and Christopher C. Crissman, Senior Evaluator.

Gentlemen, we appreciate you being here this morning and we look forward to your testimony. We swear in all the witnesses before the Subcommittee, so if you will all stand and hold up your right hand. Do you swear the testimony you give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. FRAZIER. I do.

Mr. EGLIN. I do.

Mr. CRISSMAN. I do.

Senator NUNN. Thank you. Mr. Frazier, why don't you lead off and give us your background here in this overall area.

TESTIMONY OF FRANKLIN FRAZIER, DIRECTOR, EDUCATION AND EMPLOYMENT ISSUES, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE,[1] ACCOMPANIED BY JOSEPH J. EGLIN, ASSISTANT DIRECTOR FOR EDUCATION ISSUES, AND CHRISTOPHER C. CRISSMAN, SENIOR EVALUATOR

Mr. FRAZIER. Mr. Chairman, Senator Kohl, we are pleased to be here today to discuss the Stafford Student Loan Program. The student loan program is a very important program to the future work force of our Nation. However, the student loan program has come under great scrutiny in recent time, mainly because of the high default rate. I am going to provide some information about how the program works. Then we will talk about the growth in the student loans and defaults, and then we will talk about some GAO recommendations and some legislative and regulatory changes designed to improve the program.

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[1] See p. 103 for Mr. Frazier's prepared statement.

The Stafford loan program makes three kinds of loans. First, it makes Stafford loans. The Stafford loans are the old Guaranteed Student Loans, they have been around since 1965. It also makes Supplemental Loans for Students, normally referred to as SLS loans. The third kind of loan it makes is Parents Loans for Undergraduate Students, normally referred to as PLUS loans.

Stafford loans are low interest loans—currently 8 percent—that are made on the basis of financial need. The Federal Government pays interest on the loan while the students are in school. The students generally begin repayment within 6 months after leaving school. SLS and PLUS loans are not based on financial need. Interest rates vary annually, they currently run about 12 percent. Both SLS and PLUS loans can provide assistance up to $20,000. Repayment on SLS and PLUS loans start for the principal and the interest generally 60 days after the loan is made.

In 1989, the Stafford loan program made over 4 million loans in the amount of about $12 billion. The Stafford program accounts for about 54 percent of the student aid provided by the Department of Education. Both public and private postsecondary schools participate in the program. Each loan is insured by one of the 55 state or nonprofit guaranty agencies. Guaranty agencies can collect up to 3 percent on each loan for an insurance premium. Guaranty agencies reimburse lenders for 100 percent of defaulted loans. And the guaranty agencies also serve as lenders of last resort.

The Department of Education administers the program. It reinsures the guaranty agencies for 100 percent of defaulted loans, except in those cases where the guaranty agency default rate exceeds 5 percent of the amount of outstanding loans it guaranteed the previous fiscal year. The Department of Education also makes interest payments to lenders for Stafford loan borrowers while they are in school.

Now I would like to direct your attention to our board [1] for discussions on the growth in loans, on defaults, and program costs. First, Mr. Chairman, as you have noted, volume in Stafford loans has grown tremendously over the past 6 years. Overall, the program has grown 83 percent, as you have noted. Most of this growth came in the Stafford loans. The Stafford loans make up the largest volume of loans. These are the needs-based loans.

PLUS loans and SLS loans are relatively new. The numbers that you see on the board, while they are greater, are an indication of the tremendous growth. However, because of their newness I think that the numbers are somewhat misleading.

Now, we have mentioned that the volume has grown.[2] We would expect that also that defaults may grow, but the default rate has exceeded the volume rate by a large number. Total program growth for defaults is about 338 percent. Again, the largest growth occurred in the Stafford loans. In summary, while the volume has grown 83 percent, defaults have grown 338 percent.

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[1] See chart on p. 7 of Mr. Frazier's prepared statement.

[2] See chart on p. 8 of Mr. Frazier's prepared statement.

Today defaults make up quite a bit of program costs.[1] If you would focus, Mr. Chairman, on the top line, that is program costs as far as the interest subsidy is concerned. And as you can see, that cost—as a percent of total costs—is declining. That is mainly because the interest rate in the country has been going down over the last few years.

The thick line that is up in the middle represents the growth in default costs. That growth, in terms of program costs, has gone from approximately 10 percent back in 1980 to currently about 36 percent of program costs.

In 1989 we reported that proprietary schools accounted for 22 percent of all loans, but they also accounted for 44 percent of all defaults. Studies by the Department of Education in 1986 and 1987 also indicate that the default rate at proprietary schools is significantly higher than for other kinds of schools that participate in the Stafford program.

I have attached to my statement a list of our reports on student financial aid. These reports contain several recommendations that could improve the program and reduce the default rate. Some of our recommendations have been adopted by the Congress and the Department. For example, actions have been taken to standardize schools' policies on refunding tuition and fees, and to delay loan disbursements to schools and students until 30 days after enrollment and an indication of satisfactory progress. However, our recommendations regarding risk sharing by lenders and guaranty agencies have not been adopted.

Loan consolidation and denial of loans to students attending schools with default rates over 30 percent are 2 recent actions taken by the Congress that could reduce the default rates. The Department has recently published regulations that address the default problem. For example, requiring schools with default rates over 20 percent to establish a default management plan is a major initiative of the Department.

Mr. Chairman, that concludes the summary of my statement. I have a full statement for the record. My colleagues and I will be glad to answer your questions at this time.

Senator NUNN. Are either of your colleagues going to have any statement this morning?

Mr. FRAZIER. No, sir.

Senator NUNN. Would you go back over, just briefly, the recommendations that you have made that have not been implemented by the Congress or by the administration?

Mr. FRAZIER. Yes, sir. On page 13 of my full statement, Mr. Chairman, we have listed the recommendations that we thought were the highest priorities in terms of making a difference for reducing defaults.

First, we thought we should standardize the policies for refunding tuition and fees to students who failed to complete enrollment. That action has been taken. We thought that loan disbursements to students in schools for some periods after class began should be adopted, and that way we don't have people enrolling, getting the loan, and attending school for a day or 2, and then get stuck with a large loan to repay in the future.

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[1] See chart on p. 10 of Mr. Frazier's prepared statement.

We made a recommendation that lenders should share in the cost of defaults. Right now lenders get 100 percent reimbursement on defaults. They are basically risk free. We thought we should increase the guaranty agencies' default risk, or restructure the way in which they share this risk. This action has not been taken.

And then the last one that we talked about, we should require the guaranty agency to share all default cost payments on reinsured loans with the Department of Education.

Senator NUNN. How much of this, in general terms, is related to changes in the law that need to be made and how much of it is simply understaffing in terms of Federal oversight?

Mr. FRAZIER. I think that in terms of risk sharing, you would have to make a change in legislation. Right now the Department is pretty much running the program as designed by the legislation.

Senator NUNN. The guaranty agencies have no risk now?

Mr. FRAZIER. The guaranty agencies have very little risk. The guaranty agencies right now get 100 percent reimbursement. The only time that that is not correct is that if the guaranty agency's default rate exceeds the trigger, which is 5 percent of their principal loan balance for the previous fiscal year.

Senator NUNN. What then is the function that the guaranty agency performs? What is it that the guaranty agency does for the Government?

Mr. FRAZIER. Well, the guaranty agencies basically have a responsibility to they oversee that the lenders do something that is referred to as due diligence in servicing loans to prevent their default. That is one of their responsibilities.

Senator NUNN. But if they have no risk at all, what incentive do they have to perform that effectively?

Mr. FRAZIER. Well, Mr. Chairman, that question is on the sense of what we are recommending. There needs to be more risk sharing for the purpose of giving greater incentives for the guaranty agencies, as well as the lenders, to make good loans, to be careful about the type of loans that they make.

Senator NUNN. Do the banks that make the loans have much risk?

Mr. FRAZIER. No, sir, the banks have little risk. They are fully insured for the loans.

Senator NUNN. Well, if you have got neither the guarantee agencies or the banks having any risk, or virtually no risk, what function are they serving, as opposed to having the Federal Government simply make the loans themselves? It is purely an administrative function? It is purely processing the paperwork?

Mr. FRAZIER. Principally, I believe that servicing the loan is the main function that the lenders are serving for the Government. They are making the loan, servicing the loan, trying to collect on the loan, et cetera.

Mr. EGLIN. I believe the guaranty agencies were established to solve another problem. That was the problem with the Department of Education in administering the old Federal Insured Student Loan program and the old direct loan program. And the intent was that if we had organizations closer to the schools, closer to the lenders and the students, that the program would be more accessible to those students that had a need. These guaranty agencies could then take the administrative role, make the Department of Education——

Senator NUNN. Well, it is the administrative burden that they are bearing?

Mr. FRAZIER. The administrative burden and, as I mentioned earlier in my testimony, they do serve as the lender of last resort.

Senator NUNN. What was the original purpose of the guarantee agencies in the sense of risk? Was it envisioned from the beginning of the program that they would have no risk, or that they would have some risk? The same question for the banks.

Mr. EGLIN. I believe initially the guaranty agencies were designed to share risk in the defaults and in the cost of the program. When the program was initially established, few states came forward to establish guaranty agencies or to pick up on that responsibility. Over the years the Federal Government has established more Federal sharing. The Federal Government has taken more of the risk and more of the cost than was initially envisioned, by providing incentives like Federal advances to guaranty agencies to get them started with seed money so they could pay default claims and such.

And we shared in some of these expenses in giving the guaranty agencies an administrative cost allowance.

Senator NUNN. Wasn't the original plan to bring the lender, the student and the guarantee agency together to promote the most efficient interchange among them? Wasn't that what was supposed to be the plan?

Mr. FRAZIER. Well, we believe that was generally some of the thoughts that initially went into the program. However, I think that the key question for a partnership is sharing the risk. Right now the Federal Government is basically bearing the responsibility for defaulted loans.

Mr. Chairman, what I am saying is that the original intent, in terms of making a partnership, or the key to having a partnership, is risk sharing. Even if we were to live basically in the same city or same neighborhood and we don't share in the risk for these defaulted loans, we just don't believe that that makes much difference for our living in the same area.

Senator NUNN. If there are no risks borne by the guaranty agencies, what is the penalty for bad performance?

Mr. FRAZIER. Right now, sir, what happens to the guaranty agency is that if you take their principal loans guaranteed for the previous fiscal year, then go along during the next fiscal year until their default rate hits 5 percent, they get 90 percent money on whatever claims they file with the Federal Government. However, this usually does not happen until at the end of the year when the agency's default rate hits the 5 percent trigger.

Senator NUNN. How often does that happen?

Mr. CRISSMAN. In fiscal year 1989, Mr. Chairman, the average amount paid to all guaranty agencies for default claims that were submitted was about a little over 95 percent. There are cases where some of the agencies—I think in 1989 there were about 12 agencies—that hit the 90 percent trigger, and 4 of those I think subsequently hit the 80 percent trigger. So if you asked those agencies, they probably said that we assumed some of that risk based on their default amount.

But for a lot of cases, what happens in the way that mechanism works is that the trigger usually happens in the latter part of the fiscal year. From that point on, they receive a lesser amount, the 90 percent amount or an 80 percent amount, for the rest of the year. Then starting October 1 of the next year the agencies start back receiving 100 percent payments for their default claims. So even though there is some risk, it is usually smaller because it comes towards the end of the fiscal year.

I think that probably 2 years ago—in 1987—about 97 percent of the agencies claims were paid. It dropped down to about 96 percent in 1988, and down to 95 percent in 1989. So you see that the agencies will say, they are assuming basically 5 percent of all the claims that were made—where they did not get reinsured—as was the case in 1989.

Senator NUNN. Does the Department of Education have the authority under the law to terminate the guarantee agency's relationship under the program?

Mr. CRISSMAN. They sign an agreement—the Secretary of Education signs an agreement with each agency. One of the things that may be of interest to you is that the Secretary has an authority called subrogation. That means that any time the Secretary determines that a guaranty agency is not protecting the Federal Government's interest, it can recall defaulted loan accounts back to the Federal Government.

Last year the Department sent letters to the guaranty agencies asking for the agencies to send it older accounts that had had very little activity for a number of years, or were beyond States' statute of limitations. What the Department wanted to do was take those accounts and try to work them itself.

Senator NUNN. What about responsibility for a guarantee agency in collecting defaulted loans, what is their role there?

Mr. CRISSMAN. Going back to risk, both lenders and guarantors have very prescriptive steps mandated by regulations issued by the Department that lay out certain requirements for each lender or guarantor to follow in collecting either a delinquent loan or a defaulted loan. In the guaranty agency's case, there are five steps. One way the Department will protect the Federal Government's interest is in how the IG or the Department program review staff review a sample of guaranty agency claims. They would look at whether those five particular steps were performed, and performed in the order and the time frame specified.

Now, for reimbursement of their services, the guaranty agencies get to keep at least 30 percent of any payments they collect from defaulted borrowers. They then remit the remaining balance to the Secretary, and that is called the Secretary's equitable share. So the agencies don't get to keep all the default collections.

Senator NUNN. The Welfare Reform Act of 1988 requires that welfare recipients must now seek some type of employment or receive educational training to become more employable.

Do you believe that this legislation will have an effect on the proprietary schools and the student loan enrollment as well as the default rate? I will ask that, Mr. Frazier, of you. If any of your colleagues want to respond, you just field the questions.

Mr. **Frazier**. All right sir. We believe that there is a potential for the Welfare Reform Act of 1988 to put some upward pressures on the guaranteed student loan program, mainly because a lot of the people that we are talking about are looking for short-term training and that sort of thing.

However, there is a little bit of a difference here with the Welfare Reform Act, mainly because the states put in the money, or part of the money, and we believe that the states might be a little bit more diligent about selecting the kinds of schools that the welfare recipients can get some good out of, and possibly get some jobs out of.

So while I think that it does have the potential to increase the number of customers, we also think that there is more of a partnership in terms of the states to make sure that the welfare recipients are getting into schools that they can get a skill.

Senator **Nunn**. What incentives do the states have to pay much attention to the accreditation process as far as Federal student loans are concerned? Why does it matter to them if school "A" teaches anything or not if the Federal Government is the only one losing the money?

Mr. **Eglin**. You are talking in general now, not just about the Welfare Reform Act?

Senator **Nunn**. I'm talking in general, yes.

Mr. **Eglin**. In general, I think that right now the states' lenders, as was brought out earlier, really don't have much of a risk as long as they carry out their responsibilities in making and servicing and collecting on the loans. They are going to get their default payments. So from the standpoint of a taxpayers' point of view in the states, and the lenders point of view, they are going to be made whole.

There is a certain risk to the guaranty agencies, which in many cases are state agencies. But the main problem is that the Federal Government is the one that is writing the check.

Senator **Nunn**. I am specifically talking about accreditation now. Aren't the proprietary schools accredited by the state?

Mr. **Eglin**. I was going to get into that. The proprietary schools are generally not accredited by the states.

Senator **Nunn**. Licensed.

Mr. **Eglin**. They may be licensed, that's correct. There is a licensing function, but that has not been too effective, and not all proprietary schools, depending on what they are teaching, are subject to a licensing requirement.

Mr. **Frazier**. Mr. Chairman, also, one of the things that is high on our list to study in the very near future is looking at the whole accreditation process, how that takes place, the licensing process, and that sort of thing.

Senator **Nunn**. Do you have any recommendations now on that? Can the Federal Government continue to allow other people to do the licensing and accrediting when the Federal Government is basically paying the bill and when you have got the kind of abuse that we are going to have demonstrated here today and in next week's hearing?

Mr. **Frazier**. Right now we don't know of any Federal rules for accreditation, and like I said, that is one of the topics that we are going to be studying here.

Senator **Nunn**. What is your time frame on that?

Mr. **Frazier**. Well, I think that we will probably be able to start that job in the March time frame. And generally it takes us about a year or so to do a job, so we are talking about next spring before we could deliver something on it.

Now, of course, we could come up and talk to you in the interim about it. Where we would have more information in terms of a GAO report, it takes about 12 months to do it.

Senator **Nunn**. Thank you. Senator Roth.

Senator **Roth**. Mr. Chairman, I have an opening statement. I will not read it at this time, although I would ask that it be included in the record.

Senator **Nunn**. Without objection.

[The opening statement of Senator Roth follows:]

Opening Statement of Senator Roth

Thank you, Mr. Chairman. Federally guaranteed student loan programs are among our government's most rewarding investments, producing major dividends through the development of our nation's most valuable resource—our young people. For that reason, the problems we will be examining in this series of hearings take on added importance because of their long-range implications for our nation's future.

Mr. Chairman, I want to take this opportunity to commend you, personally, for your longstanding interest and continued involvement in working to uncover the problems in this area and trying to develop solutions to those problems. I recall the hearings you presided over in 1975, when this Subcommittee examined this same topic and found similar problems, only on a smaller scale. I believe I speak for my colleagues and for the American people in applauding your leadership in having this Subcommittee revisit this still troubled area through this series of hearings.

In these initial hearings, we will hear horror stories of individuals who operate proprietary schools under the guise of being educators but are motivated only by greed. These individuals prey upon federal student loan funds and the futures of unsuspecting young people. We cannot afford to sacrifice either of those resources.

Proprietary schools play a role in providing our young people with the level of training necessary to guarantee a competitive workforce, something we must have in order to meet the challenges created by rapidly changing technology and the increasingly competitive world economy. Many of these schools undoubtedly do a fine job in meeting that tough challenge. However, there are others for whom the only challenge is bilking the federal treasury and hoodwinking young people trying to better themselves. These unscrupulous operators contribute significantly to the student loan default problem. Education Secretary Cavazos reported that defaults are disproportionately concentrated in proprietary schools, which have default rates that are twice that of two-year institutions and four times the rate of four-year schools.

During these hearings, we will hear about the means by which these schemes are run—padding the length of courses to increase tuition costs, intentionally enrolling students who cannot possibly benefit from these courses and who ultimately drop out and default on their student loans, and failing to make required refunds of federally funded tuition after these students dropped out. Rather than allowing these young people to improve themselves, these schools actually leave these students in a worse position than when they started. Because of the deceptive practices of such schools, these students have to pay for an education they never received.

Lacking proper training, these young people are not able to get jobs by which they can repay these federally guaranteed loans and thus suffer the added humiliation of seeing their credit ratings destroyed in the process. Ultimately, then, it is the American taxpayer who bears the cost of these scams.

Mr. Chairman, I want to commend you and your staff for their outstanding work in exploring and exposing this scandalous state of affairs. We need to know not just what has happened, but how we can keep it from happening again. What went wrong with the auditing process which allowed these situations to develop?

The Department of Education, first under Secretary Bennett and now under Secretary Cavazos, has undertaken to confront this problem with its recent "Student Loan Default Reduction Initiative." However, legislative action is also required to give the Department authority to take certain actions. The Senate has just passed the Educational Excellence Act, which includes several provisions addressing the default problem. These include restricting a school's recruitment and admissions activities to salaried employees or volunteers, prohibiting the use of independent contractors; and requiring a borrower to provide a driver's license number and name and address of next of kin when applying for a student loan. We must continue to work to enact these essential remedial measures into law.

We cannot afford for this situation to continue. We cannot sacrifice the futures of our young people and we cannot tolerate the waste of government funds. Neither can do anything but hurt our nation's future. Mr. Chairman, I commend you and your staff for declaring "open season" on these charlatans. As usual, you are right on target.

Senator ROTH. First of all, I want to congratulate you for your long-standing interest in this problem. I think you first began to look into this matter as far back as 1975. But as we learn in Washington, no problem ever goes away, it seems to just get more complicated.

As I listen to the testimony today, the one thing that particularly strikes me is that there seems to be somewhat of a pattern in government programs. I sat through the hearings on savings and loans, and the problem there seemed to be that we made it possible, through our guaranteeing of deposits, for those that are less than scrupulous to use that money without risk for their own purpose. And the depositor, of course, wasn't concerned because he was protected by the Federal Government.

In a way it seems to me we are running into that kind of a problem here, Mr. Chairman; that by guaranteeing these payments, we are providing the opportunity for those that are unscrupulous and not motivated by the best of intentions, to use these programs as a means of draining off money from the U.S. Treasury.

This concerns me from the point of view of efficient government operations. Are we somehow creating programs with the best of intentions, and I can't think of anything more important than some kind of a student loan program to help ensure our young people have the opportunity of worthwhile training, but somehow in our creations overlooking that these programs can be utilized by unscrupulous people for personal gain.

So I congratulate you for holding these hearings, because I think this is a very disturbing story, both from the standpoint of the cost to the Government, but even more important is the fact that these young people, with the best of intentions to get some training, find out even if they do go to one of these proprietary schools, that it really isn't equipping them for worthwhile jobs.

So, again, I congratulate you and Eleanore Hill and the staff for, I think, digging into a problem of tremendous importance to this Nation.

Senator NUNN. Thank you Senator Roth. We have been down this road before. There were all sorts of recommendations made back in 1975 and 1976 when Senator Jackson was head of this Subcommittee, and a number of those have been implemented. But it seems that the same problems we were hearing back then are right back now.

Senator Roth, I have already, before you arrived, thanked you and your staff for your splendid cooperation. We appreciate it very much.

Senator ROTH. Thank you, Mr. Chairman.

Senator NUNN. Senator Kohl.

Senator KOHL. Thank you, Mr. Chairman.

Mr. Frazier, to what extent is it true that students oftentimes do not even need a high school diploma to qualify for a secondary loan?

Mr. FRAZIER. Well, I don't have figures at the moment, Senator Kohl, on exactly the magnitude of that problem. However, there is a provision that allows students without a high school education or without a GED to participate in the program, and it is generally referred to as the "Ability to Benefit" provision.

And we do know that that occurs quite a bit. People who are admitted to the program are granted loans on the basis of ability to benefit. Now, I think that we would have to get this number for you, unless one of my colleagues has an exact number. I don't believe that we have that.

Mr. CRISSMAN. One of the things, Senator, that took place in December 1989 is that the Congress passed the Omnibus Budget Reconciliation Act of 1989. It took a major step as far as student loans are concerned, because there were several changes made to the SLS program, or Supplemental Loans for Students program.

One of those requirements that was enacted by the Congress was to prohibit students who were "Ability to Benefit" students from obtaining SLS loans. That was a major step taken as far as that particular program. Others have suggested that a similar prohibition should apply to the whole program. I don't think we are in a position to comment on that yet because we don't know, like Mr. Frazier said, what the magnitude of the numbers are. I know there was a lot of concern. The SLS program became changes effective, I think, on January 1st.

Senator KOHL. Do you have any information with respect to how much the default problem is based on loans made to people who don't have a diploma?

Mr. FRAZIER. No, sir. We don't have that statistic. We can try to run it down for you, but we don't have that for you at the moment.

Mr. CRISSMAN. Part of the problem right now is, as far as we know, there is not a real data source that tracks "Ability to Benefit" students versus, say a high school diploma or a GED students without getting institutional-specific type data.

Senator KOHL. Has the Department of Education ever considered forbidding institutions participating in loan programs from using personnel to recruit students on a commission basis?

Mr. CRISSMAN. That is one of the things that the Department has proposed legislation for the Congress to consider. I think that part of what the authorizing committees are looking at is whether to require these people to be employees of the institution rather than commissioned salesmen. Some suggested language by the Department was submitted with its fiscal 1991 budget request.

Senator KOHL. Senator Roth referred to it in his statement, and I talked about it in my opening remarks. I am talking about savings and loan problems that we have had, and problems in the Department of Education concerning these student loans. These are management problems. I mean, is there any other way, in a broad way, to describe what is happening except as a lack of good management? Is that a fair statement?

Mr. **Frazier**. Well, I think that the guaranteed student loan program is a changing dynamic program. There are several things that have really been happening that might be contributing to the problem. I don't think that there is any one particular thing that generates the problem.

I think, for example, if we were to look over the program, there has been a tremendous shift from the grant program to the loan program. At one time a lot of the low income people weren't obtaining these loans, they basically got grants. And then in about 1985 or so, we opened up SLS loans to undergraduates, and now a lot of people get these relatively large loans, they get trained for relatively low skilled jobs, and it becomes very difficult for them to repay those loans.

So I think that it is program that is shifting, not settling. I think the Chairman mentioned some of these things came up in 1975 or earlier, but the program doesn't seem to settle, it is ever changing. I think we have to work at it from the point of view that there are several things that might need changing, including some management problems.

Senator **Kohl**. You are suggesting that it would be incorrect to make the statement that the entire problem is a management problem, that there are, in many cases, reasons that are understandable with respect to student loans that don't get repaid——

Mr. **Frazier**. That's correct.

Senator **Kohl** [continuing]. And that don't reflect on, necessarily, poor management.

Mr. **Frazier**. Yes, sir.

Mr. **Eglin**. Don't forget, the program is directed towards the portion of our population that most lenders would not provide a loan to, so there is an inherent risk there. And I think there has to be a balance between that risk and the controls. I think that, as Frank mentioned, there is a lot regarding the management of the program that could be tightened up, but I think there are some structural things that also have to be changed.

Senator **Kohl**. You mean in many cases students will go through these programs in a legitimate fashion and then wind up with a job that doesn't permit them to repay these loans?

Mr. **Frazier**. That's correct.

Senator **Kohl**. Aren't these loans then extended and not defaulted.

Mr. **Eglin**. Yes, they can be deferred.

Senator **Kohl**. Well isn't that what in fact does happen?

Mr. **Eglin**. In many cases. There is nothing wrong with that. The program is intended to provide that avenue.

Senator **Kohl**. Right. But we are not really talking about that situation here today, we are talking about just out right default?

Mr. **Eglin**. Right, those people that walk away from their debt, that refuse to negotiate with their lender to come up with a repayment plan.

Senator **Kohl**. That's right.

Mr. **Frazier**. In a lot of cases, Senator, they get trained for jobs that there just really isn't a demand for that job, or they get trained for jobs that they have very little chance of getting employed in.

Senator **Kohl**. Do you have an estimate on the amount of money that is truly at risk here to the American taxpayer today on student loan defaults?

Mr. **Frazier**. Yes, sir. We have an estimate that there are approximately $45 billion in outstanding loans at this time. And then if you wanted to do the back of the envelope calculation with about 36 percent of the loans that are going to be defaulted, then you can do that kind of analysis. But we don't have an estimate other than that kind of just general——

Senator **Kohl**. But just using the statistics you have, based on the amount of loans that are outstanding, if you use those $45 billion and 36 percent you are talking about $13, $14, $15 billion——

Mr. **Frazier**. Yes, sir.

Senator **Kohl** [continuing]. That the American taxpayer presently would look forward to having to write off.

Mr. **Frazier**. Over a period of time, that's correct.

Mr. **Eglin**. That may be a little misleading, because the 36 percent is just talking to one element of the total loan program costs. We did some work a year or so ago on the default rates, and if I remember right, the total default rate we came up with was something like about 18 percent. So I think we would, if you wanted to apply something, and I'm not sure that is really too good to do without looking at it a little more, but I think 18 percent would be a better figure to use than 36 percent. We did find higher rates, such as 36 percent for folks that did attend proprietary or vocational schools.

Senator **Kohl**. So you think the number is closer to 18 percent, if you had to make a guess at this point?

Mr. **Eglin**. That is based on this——

Senator **Kohl**. Based on the amount outstanding, $45 billion?

Mr. **Eglin**. That would be closer than 36 percent, right.

Mr. **Crissman**. In fact, the Department, Senator, has put out something fairly recently that it is estimating about 20 percent will probably go bad. So that would be roughly about $9 billion.

The thing to keep in mind is that defaulted loans are not totally written off, because even though a borrower does default, we have the opportunity then to collect from that person. Cumulative recovery rates, that is the amount of money we capture back from defaulted borrowers, from the guaranty agencies, are up around 26 percent currently. So we do get some of that money back, it is not a total loss.

Senator **Kohl**. Are you estimating that with respect to loans and default ratios, as we continue to make these loans, that we are doing a much better job, a better job, or not a better job at all in terms of the process, and improving the process?

Mr. **Frazier**. I think the way I would answer that is that we basically don't know. While the default rate does seem to be increasing, the Congress has taken some action to stem defaults, as well as the Department of Education has come out with a set of new regulations to deal with the defaults. We just cannot say if we think that it will just keep going or——

Senator **Kohl**. You don't really have an answer to that one?

Mr. **Frazier**. That's correct.

Senator **Kohl**. Whether we are doing better or worse, you are not in a position to say?

Mr. **Frazier**. That's correct.

Senator **Kohl**. All right. In looking at institution by institution in this country, do we have a record with respect to those institutions that are doing the best and the poorest job?

Mr. **Crissman**. There were three major studies done on an institution by institution basis in the last 2 years. One was done by ourselves that basically looked at what we call a cohort of borrowers. We looked at everybody who got their last guaranteed loan in 1983. And then 4 years later we tickled the system to see where were they, had they defaulted or were they in repayment.

The Department has also done an 1986 cohort study and a 1987 cohort study. All three studies detail default rates by institution, so there is data available. In fact, the Department is using the default rate numbers as a sanction tool right now. In regulations it published last year, it laid out prescriptive steps that based on certain default rates schools would have to implement certain items.

For example, all schools having a default rate above 20 percent would have to develop and submit default management plans that outline in detail what they plan to do to bring their default rate down at that particular school. So there are steps.

Mr. **Frazier**. Senator, if you have a copy of my testimony, look on page 12. You will see what the different default rates for the different kinds of schools are that are in our studies, basically by proprietary schools, 4 year private schools and public schools, and 2 year public and private schools. You can see by that chart, that for basically, loans to people going to a 4 year institution have the lowest default rate, then 2 year public and private institutions are kind of like the second lowest and they are relatively the same, and then when we look at proprietary schools and the rate is much higher.

Senator **Kohl**. That is where the problem is centered? If it is centered in any specific place, it is in the proprietary schools?

Mr. **Frazier**. Well, for the default rate it certainly points that that is a bigger problem than elsewhere.

Senator **Kohl**. All right. Of the $45 billion outstanding, what would you guess is the dollar amount going to proprietary schools?

Mr. **Frazier**. I think we estimated that it was 22 percent.

Senator **Kohl**. Twenty-two percent of our loans are made to proprietary schools?

Mr. **Frazier**. That's correct.

Mr. **Crissman**. We have another chart in there, Senator, that may be of interest. On page 11, we show what has happened over time, that the proprietary schools are starting to get a bigger share of the loan dollars. There are two lines for 1988, in which borrowers attending proprietary schools represent about 34 percent of the borrowers, and they got about 30 percent of the loan dollars. So what is happening is they are also getting more of the Stafford program money.

Senator KOHL. Just one other question. Is there a person in the Department of Education who is responsible for this program?

Mr. FRAZIER. Well, I would say the Secretary.

Senator KOHL. But he's responsible for everything. Is there a person who is responsible for this program?

Mr. Frazier. I don't know of a person——

Senator KOHL. Really responsible on a day-to-day hands-on basis?

Mr. CRISSMAN. I would say there are probably several. There are key people, they have a debt collection management group, a quality assurance group. So, collectively, there are many people in the Department involved, and that includes program reviewers. They have a separate section to do program reviews of guaranty agencies, lenders, and schools, as well as the IG's audits.

Senator KOHL. So, in terms of accountability, if we really wanted to talk to somebody who's more than a symbol, the head guy in this case is a symbol, I think, but if there is a person there to talk to, you don't know who that person is?

I mean, you wouldn't be able to tell us who you think that individual is?

Mr. CRISSMAN. It would probably fall more on the Assistant Secretary for Postsecondary Education, which would be Dr. Haynes.

Senator KOHL. Thank you. Thank you, Mr. Chairman.

Senator NUNN. One final question I will ask to any of you, or all of you.

Given the nature of the student loan program, given the fact that a lot of the Stafford loans are to low income, middle income people, the high risk, the fact that you are going to have some defaults, no doubt about that, what is an acceptable default rate in this program?

You mentioned 36 percent for proprietary schools. What would be acceptable there? Just your opinion.

Mr. FRAZIER. Mr. Chairman, I am not really sure that we have an idea of what exactly is an acceptable default rate. I think that one place I would start with is, the Department of Education's new regulations, as we have noted. It came out with the idea that any time the default rate exceeds 20 percent the schools then must develop a default management plan. And so I would guess that, to me that might be just as good a place to start as any.

Senator NUNN. Mr. Eglin.

Mr. EGLIN. Well, probably my view would be it kind of depends. I think some institutions that have lower default rates, or institutions in general, probably should take some action to lower their default rates, whether it is 5 percent to 50 percent. I think there is a certain portion of the population that is always going to be subject to default, but I think what we are trying to do is bring attention to the fact that it is a problem.

Senator NUNN. I guess what I am asking is, should the Congress, the Federal Government, and the American people be alarmed about this problem, or is this just going to be a situation we live with?

Mr. FRAZIER. Well, I think that we are alarmed about the problem. The Comptroller General has placed the guaranteed student loan program as one of our areas that we are going to look at very closely in terms of fraud and abuse. And $45 billion is a lot of money to be out there, and I think that we should work as hard as we can to reduce our vulnerabilities for defaults.

Senator NUNN. Would it be too strong to say that you believe this program has got some very serious problems and that the default rate is an alarming default rate that has to be addressed? Is that too strong?

Mr. FRAZIER. Well, I would say that we think that it is certainly a serious problem and we would certainly have it on our list as one of the things that we are going to spend some resources on, looking forward to trying to get at the problem.

Senator NUNN. Mr. Crissman.

Mr. CRISSMAN. Mr. Chairman, I think I would probably rather focus on not so much the rates but on the dollars, themselves, because I think there are cases where schools—it could even be a more traditional 4 year school—that have a 19 percent default rate. Okay, maybe that is too high for that particular school. So, when we focus in on looking at what each school can do collectively with its lenders and guarantors to reduce default costs in general, versus specifying a rate—I think a rate is a good trigger to signal maybe we got to look at individual schools. But I think that is part of it, not only looking at the schools but looking at the dollars.

Senator NUNN. Well, since the focus of the hearings that we are having this week and next week is on primarily proprietary schools, do you have any specific recommendations as to proprietary schools that would not necessarily apply to other categories?

Mr. FRAZIER. No, sir, I don't believe that we do.

Senator NUNN. You haven't looked at proprietaries as a separate group?

Mr. FRAZIER. No, sir. As a matter of fact, we were talking about that, and I said that the program we have is one of the ones on the high risk list and that is one of the jobs that we are starting.

Senator NUNN. Well, we look forward to continuing to work with you. Thank all of you for being here.

Senator KOHL. Mr. Chairman.

Senator NUNN. Senator Kohl.

Senator KOHL. I just want to make a comment, following up on what you said and what I said before. I guess I was inferring something and I thought about it and I think I have a responsibility to state it again and ask you for your opinion.

In all of my experience, I found that to the extent that you can assign responsibility, that is the extent to which generally you get the kinds of results that you and I and whomever else are looking for, in almost anything we do in this world. And the surest way to get into trouble is to have a diffused responsibility with nobody really responsible. And I should think that when you have $45 billion—in your opinion—out there in student loans, if there were a person with a staff, who wasn't involved in the political process, who could come here and point annually with pride to management of the student loan program, I should think that would—most probably, if he or she were a good person, a smart person, an effective person, a conscientious, hard working person with a continuing involvement in the process, understood how it worked from year to year, and wanted to show the results that the American people need, and she or he took pride in that, that we would have much less of a problem today than we do have. And that looking forward and ahead to the program, if we are not just to cut it off and slow it down or eliminate it, if we want it to continue and be a successful, ongoing program in our society, which we need, then that kind of management responsibility is essential. Without instituting that kind of a management responsibility we will be hurting those people who most need the program in our society, because at some point the American people and Congress will call for the program to be reduced or eliminated because of our mismanagement.

Is that a reasonable statement?

Mr. FRAZIER. Well, we certainly would agree with you that it might certainly be one of the ingredients that is needed, and that might take care of the management ingredient. But there are some other structural things that also need to be taken care of. So we would agree that it might take care of the management component.

Senator NUNN. Thank you, Senator Kohl. We appreciate all of you being here. Thank you.

Our next witnesses are David B. Buckley, Chief Investigator of the Permanent Subcommittee on Investigations, and Grace T. McPhearson, Staff Investigator, Permanent Subcommittee on Investigations.

David and Grace, I will ask you both to hold up your hands and take the oath. Do you swear the testimony you give before the Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BUCKLEY. I do.

Ms. MCPHEARSON. I do.

Senator NUNN. We appreciate your long hours and hard work on this investigation for a long time, and we look forward to your testimony.

TESTIMONY OF DAVID B. BUCKLEY, CHIEF INVESTIGATOR, PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, ACCOMPANIED BY GRACE T. McPHEARSON, STAFF INVESTIGATOR

Mr. BUCKLEY. Thank you, Mr. Chairman.

The staff has prepared a rather lengthy statement for the record and I would like to have it included in the record.[1] I would like to summarize our findings in testimony this morning.

Next Monday, we will testify on a proprietary school we are examining, the American Career Training Corporation, of Pompano Beach, Florida.

Mr. Chairman, to date, no area examined in the Federal student aid programs is operating efficiently or effectively. Every individual we have spoken to, without exception, has told us that, despite recent changes in program administration, the system is broken and that major changes must be made immediately to save the taxpayers' money.

It is important to note early on that, while we are convinced that fraud, waste, and abuse exist in the operation of these programs, we are not condemning every individual agency or educational institution associated with these programs. The vast majority of persons involved in the process, we have been assured, remain honest.

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[1] See p. 122.

Our criticism of the program is not the result of isolated instances of abuse. Despite the lofty goals and good intentions of the student aid programs, hundreds of millions of dollars are being wasted or fraudulently obtained. Such readily-available dollars for financial aid, combined with little effective oversight, have skewed the education and employment markets. This is particularly obvious in the case of some proprietary or for-profit trade schools.

Students are being lured into paying thousands of dollars to train for entry-level positions that, at most, require only a few weeks study. There would be little incentive to create and sell these high-cost, but relatively useless programs, were it not for the steady flow of available cash for federally backed student financial aid.

As a result, the propriety school industry as a whole has suffered. This is unfortunate, since quality trade school and vocational training serves a legitimate and necessary function in our society. For many Americans, it is the key to a financially secure future.

While our investigation is not by any means an indictment of the entire proprietary school industry, it did confirm serious problems of abuse, and in some cases, fraud. Moreover, the problem seems to be getting worse.

As the President of the Massachusetts Higher Education Assistance Corporation, a guarantor of student loans, recently described it, "I used to buy the rhetoric that there were just a few bad apples, but then I discovered that there were orchards of bad apples."

The major findings of the staff investigation to date are, as follows:

The Federal guaranteed student loan programs have become big business. Through aggressive recruiting, schools are able to rapidly increase the number of enrollees eligible to receive Federal aid, which results in a massive influx of capital and profits. Lenders visit schools to determine the school's loan volume and to vie for the schools' loan business.

CPA firms assist schools in setting up school student financial aid programs and then, in some cases, conduct the required non-Federal independent audits of those same school's financial aid programs.

Consulting firms assist schools in gaining accreditation, licensing and certification, and in some cases base their compensation on the amount of subsequent Federal aid that flows through the school.

During the course of our review, we determined that, given the profits being made, there is inadequate government oversight of the operations of the lenders, guarantors and secondary student loan markets. Despite the national policy and goals underlying the student loan programs, there is no assurance or even likelihood that uniform standards are being applied in determining whether the quality of the school's program merits Federal assistance.

State licensing is one of the prerequisites for any school's participation in Federal student loan programs. However, our investigation revealed that State licensing procedures are largely ineffective in assuring quality education or training at participating schools.

Citing the proliferation and variety of these offices, the Department of Education was unable to provide us with a list of State offices charged with the licensing of schools participating in the student loan programs. Despite all of the obvious problems, the Department of Education officials told us that they make no attempt to monitor, oversee or influence State licensing procedures, citing a lack of jurisdiction to do so.

An executive director of a guaranty agency, among others, told us that unscrupulous businessmen are making extremely high profits at taxpayers' expense. For example, the school is able to use a variety of lenders, lenders which the school knows who are, in turn, using a separate guarantee agencies, in an attempt to hide ineligible students and also hide the actual volume of loans being processed through the school.

The majority of lending organizations, we were told, have no personal contact with the student whatsoever. Lenders are often faceless corporations, located in a State other than that in which the school operates. They rely solely on the school, which has a clear financial interest in obtaining more students and more loans to verify student loan application information. Apparently, the lenders involved do very little, if any, review or certification of data submitted by the school.

For example, just a cursory review of one small computer-generated listing of students of the American Career Training Corporation, with loans guaranteed through the Massachusetts Higher Education Assistance Corporation, revealed a $2,625 loan made to a student of Louisville, Kentucky, with the address listed as "unknown." A $2,625 loan made to a student at "403 Cant Read, Pritchard, Alabama." According to the Pritchard Fire Department, "There may be some people in Pritchard who can't read, but we haven't named a street for them."

A $2,625 loan made to a student, with a motel room for an address, in Groton, Connecticut. The student is no longer registered at that motel.

The point is, Mr. Chairman, if a lender or guarantor does not identify the whereabouts of a student, due diligence efforts are really a moot point. Unless the student can be found and billed, the loan will most likely result in a default.

Before a student of a given school is able to participate in Federal aid programs, the Department of Education must determine if the school is licensed in the State in which it is located, is accredited by a body recognized by the Secretary, and is financially sound. Based on our investigation of the certification process, we are convinced that it provides little, if any, effective insurance against waste, fraud and abuse in these programs.

With 8,000 schools participating in the student loan program, the department receives between 300 and 400 applications for certification per year. Just in terms of resources, the department readily admits it does not have the ability to focus on individual schools.

Additionally, some say that the law does not permit the regulations to place stiffer requirements on those sectors of the educational system, such as proprietary schools, which appear more vulnerable to abuse. Officials complain that they need the authority to regulate more narrowly, targeting those types of schools that are most suspect.

The Department of Education relies heavily on the individual State licensing departments and the various accrediting bodies to certify that a school is operating within the bounds of the law and regulation. There is no personal contact between the school and the department. There is no independent verification by the department that the information supplied is accurate. It is taken on face value.

This reliance on State licensing boards and accreditation agencies is difficult to justify. In Georgia, for example, only two individuals were responsible for reviewing and verifying information provided for the licensing process of that State by the State's 200 private trade schools, which have approximately 60,000 students. In Florida, four individuals currently oversee 640 schools. Those 640 schools account for 100,000 Florida students and an untold number of out-of-State students who attend those schools, because the State does not make any effort to track them.

The Department's heavy reliance on accreditation agencies in the certification process may also be misplaced. In the proprietary school sector, accreditation has been criticized as providing little, if any, assurance that quality training is being provided.

This morning, the Inspector General will testify about schools that open branch campuses or add ineligible programs to their curriculum. We have found that, once a school is certified by the Department, the school may add new programs, without even advising the Department. Students of the new program may receive Federal financial aid. It is no wonder problem schools are able to flourish, using abusive and fraudulent practices.

Our investigation revealed that if a program review finds gross violations of law and regulations and recommends to the department that the school be decertified, that the process can take anywhere from 1 to 3 years. Officials at the certification office told us that the Department is plagued by the protracted due process system required for decertification.

On the other hand, another office within the Department commented that if the certification office strengthened its initial review process for certification, perhaps there would be a much smaller group of "bad schools" for the department to take action against.

On paper, the Department's program review process may seem impressive. In practice, our review found it disjointed and largely ineffective. The Department of Education Regional Offices, guarantee agencies, the State licensing boards and the accrediting bodies all conduct school program reviews. In addition, schools must submit non-Federal independent CPA audits to the department every 2 years while participating in the student aid program.

Unfortunately, there is no mechanism within the Department to assure that these reviews are completed and received by the department. State licensing boards do not have to submit their program reviews to the Department and the States are not given access to such basic information as to the amount of Federal aid flowing into the school or who the lenders and guaranty agencies are for that school.

Federal regulations require guaranty agencies to conduct program reviews on the schools that represent the top 2 percent of the agency's loan volume. This forces those guaranty agencies to review major universities. New default reduction regulations now require them to review schools with a default rate above 40 percent in that agency's portfolio. Guaranty agencies do not have access to other financial aid information, such as Pell Grant funds, and frequently do not know the number or identities of other guaranty agencies holding loans for students of the same school. So, a school using many different lenders and guarantors may be able to evade the guarantee agency program review process entirely.

Moreover, guaranty agencies have little incentive to initiate adverse action against a school for program violations. Even where past violations are established, the agencies generally continue to guarantee new loans for the school. The reason is simple: If the school's access to new loan business is cut off, the school will be unable to reimburse the penalties that were assessed by and owed to the guarantee agency.

Department of Education program review employees told us that their staffing experience levels are woefully inadequate to protect the billions of dollars of student aid. Department officials told us that between 1985 and 1986, they lost one-third of their manpower, even though an effective program review to recover up to 15 times the cost of that review. In 1988, the Department had to start all over again by hiring and retraining a program review staff. Officials readily admit that they still do not have the staff to do what the regulations require them to do.

Schools taking advantage of the lack of communication between the department's regional offices, open branch campuses in other regions and those campuses may go undetected by that regional office. While new program review initiatives may seem to be addressing the problem, program review personnel told us the increases in personnel will only address the most severe problems and that their work continues to be largely reactive in nature.

During the course of our review, we were also concerned by an apparent lack of credible inspection procedures in the program reviews that are conducted. Procedures used by all the program reviewers seem to be particularly susceptible to manipulation by unscrupulous schools.

Reviewers told us that they routinely provide the school with a list of student files that the agency wishes to analyze and permits the school's employees to pull the files. This enables unscrupulous schools to alter the records before the review actually gets access to them.

Moreover, when program reviews uncover violations, the school is held liable only for the actual findings of that review, with usually no follow-up to determine whether additional violations exist. There is no mandatory reconstruction of the school's student financial aid files to determine what the actual liability of the school is or may be.

The shortcomings in the program review process are compounded by a lack of adequate data and communication throughout the entire oversight system. For instance, departmental regional employees complain that the Department's computerized data base is so inadequate that investigators and program reviewers cannot determine who the school owners are. One senior departmental employee estimated the data base may be 50 percent inaccurate.

Even where the Department has important information on the school, there is little guarantee that it will be considered when the school's activities are reviewed. Although the Department maintains several separate files on each school participating in the Federal student aid programs, there is no master file or cross-index of this information.

Copies of the program reviews of schools completed by guaranty agencies are filed at the Department in Washington. However, we heard complaints that Washington refuses to send copies to the regional offices in the field. As a result, the regional offices may have no way of knowing what, if any, problems that may have already been identified in schools operating in the region.

The Department and Congress have at their disposal certain bodies created by law to address some of these major problems. Unfortunately, we saw little evidence that these bodies have attempted to address these major issues.

For example, the National Advisory Committee on Accreditation and Institutional Eligibility was created by statute in 1968, for the purpose of advising the Secretary in publishing a list of nationally recognized accrediting agencies. We determined that the committee had never recommended that an accrediting body be removed from the Secretary's list and, for that matter, the Secretary had never taken such an action.

The Advisory Committee on Student Financial Assistance, which was established by the Higher Education Act of 1965, is charged to report to Congress and make recommendations to the Secretary of Education on numerous aspects of Federal student financial assistance programs. Despite its broad mandate, the staff director told us that the committee had purposely avoiding dealing with the proprietary school issue, because it was just too sensitive.

Our review found serious long-standing problems in the system. Steps are being taken to address some, but clearly not all, of the problems. The Department's default reduction initiative and other initiatives will help recover some money. Personnel increases may eventually permit the department to assume a more pro-active role in detecting abuses, but, as noted, there is already a tremendous backlog of work to be done.

Senator NUNN. Are there personnel increases being made now with the President's budget in the Department of Education in this area?

Mr. BUCKLEY. Yes, sir, there are.

Senator NUNN. What is the magnitude of those?

Mr. BUCKLEY. I do not know a percentage increase, sir. I have the 1991 budget here. I think suffice it to say, without the specific numbers, the people in the field and also the people in headquarters told us that, even with the 1991 additional full-time employees being added, they are still going to be way behind the power curve.

Mr. Chairman, this concludes our findings to date. We will be glad to respond to any questions.

Senator NUNN. Thank you very much, Dave.

Several questions: During the field work of this investigation, you found that many schools avoid or delay detection of both loan default rates and rapid increases in loan volume by dispersing their loan portfolio among several lenders and guarantee agencies and that this contributes to the problem, is that correct?

Mr. BUCKLEY. Yes, sir, it is.

Senator NUNN. So, they spread it around so no one can keep up with it?

Mr. BUCKLEY. That is absolutely correct. The school we were examining used over 20 guarantee agencies and an untold number of lenders.

Senator NUNN. Is there no communication network or common data base between the lending agencies or between the guarantee agencies?

Mr. BUCKLEY. There is not and that is——

Senator NUNN. The guaranty agencies do not have any interlink, no computer exchange of information?

Mr. BUCKLEY. No, sir, informal telephone communication only.

Senator NUNN. Does the Department of Education have any plan to do anything about that?

Mr. BUCKLEY. The Department, currently, annually receives magnetic tape dumps from all the guaranty agencies and compiles a master list. We have been told that that system is inaccurate, the data is inaccurate. The Department is very slow in publishing the information and sending it back out to the field where it can be used.

There are plans to have a computerized network so that the guaranty agencies and the department can communicate, but we were told that it also is way behind schedule.

Senator NUNN. Would it be helpful to have this kind of interlinking between the guaranty agencies?

Mr. BUCKLEY. Yes, sir, the guaranty agencies are actually screaming for it.

Senator NUNN. How would it help?

Mr. BUCKLEY. For example, when the guaranty agency program review staff would be going out to review a school, they could punch-up on the computer and see the loan volume for that school, the entire loan volume, not just their own, and if they made significant findings in their portfolio at that school, they would also be able to immediately notify the other guarantors that they may want to pull out.

Senator NUNN. So, the guaranty agencies would like to see this happen?

Mr. BUCKLEY. Yes, sir.

Senator NUNN. Why does it not happen?

Mr. BUCKLEY. I believe it is just bureaucracy, it is just red tape, very slow in being developed and being put out.

Senator NUNN. Whose fault is that?

Mr. BUCKLEY. The Department of Education is responsible to put this computer program and field it.

Senator NUNN. You say there are no real plans to do that now?

Mr. BUCKLEY. There are plans, yes, sir, there are plans to develop that computer network. It is just waiting——

Senator NUNN. Well, when did the plans come into being and when do they expect to complete that?

Mr. BUCKLEY. I do not know, sir. I can certainly find that out.

Senator NUNN. How would you describe the flow of information to various branches within the Department of Education?

Mr. BUCKLEY. We were told that the flow of communications between headquarters and the field is horrendous. The field regional offices complain that they cannot get straight answers out of headquarters, they often call headquarters here in Washington and get answering machines, they have a hard time getting their questions answered, period.

Within the Department, even right here in Washington, just within one building, the communications are inadequate in certain areas, such as program review not adequately talking to the certification office, for example.

Senator NUNN. It sounds like the Department is just not being managed.

Mr. BUCKLEY. That is one of the criticisms, yes, sir, that we have heard.

Senator NUNN. Is there a particular section that can be held accountable here? Senator Kohl was asking that question and I think it is very pertinent. Is there a particular chain of command that has control of the student loan program?

Mr. BUCKLEY. No, sir. The loan programs and the grant programs, certification, eligibility, they are all divided, the wiring program sometimes does not make sense.

Senator NUNN. So, there is no one Assistant Secretary that has jurisdiction over all of this?

Mr. BUCKLEY. No, sir.

Senator NUNN. How many Assistant Secretaries do have jurisdiction? Are there several?

Mr. BUCKLEY. Three, I think.

Senator NUNN. So, restructuring the Department of Education itself may be required. Is that a fair assessment?

Mr. BUCKLEY. Yes, sir, I think that is fair, at least restructuring the way they manage this program.

Senator NUNN. Would it be too strong to just say this program is in chaos?

Mr. BUCKLEY. Those words were used exactly by some people in the field, yes, sir.

Senator NUNN. Based on your investigation so far, do you agree with that assessment?

Mr. BUCKLEY. Yes, sir, and I think the more we look, the worse it is going to get.

Senator NUNN. It sounds like the only difference between this and the savings and loan problem is that there was more money in the S&L, probably.

Mr. BUCKLEY. It is certainly open for abuse, Mr. Chairman.

Senator NUNN. What about law enforcement, in terms of violation of laws, are there any prosecutions going on relating to either lenders who engaged in fraudulent practices or schools that are engaged in fraudulent practices? Do you know people who have been prosecuted? I am not talking about students, I am talking about—a lot of times the students are the victims here—I am talking about the people who are really engaged in fraud and abuse.

Mr. BUCKLEY. Yes, sir, there are several school owners that have been prosecuted and convicted. I think the Inspector General will testify this morning on some of the more spectacular cases. They have had major problems with lenders and are seeking indictments.

I think he will also tell you that because the Department of Education Inspector General is the lead on this, major investigations really shut down his operations in some regions. It is not like the FBI; they have got untold number of resources to bring in. But the FBI does not have the type of program knowledge to investigate a school or a lender on the student financial aid programs, so the IG investigator will work closely with the FBI. It is the IG investigators who are doing the bulk of the work.

Senator NUNN. The IG of the Department of Education?

Mr. BUCKLEY. Yes, sir.

Senator NUNN. Do they have enough personnel to do this?

Mr. BUCKLEY. I do not think so. I think that if we doubled them today, there would still be a lot of schools and lenders that they would be able to examine, but the IG I am sure will——

Senator NUNN. Would you say that the problem of actual criminal fraud in this area overall—I am not trying to get into any specific case at all, but just overall—that there is a very significant problem?

Mr. BUCKLEY. Senator, if you include making false statements, things on certification forms to the Department, yes, fraud is a major problem, because if a school falsely certifies its application for eligibility, everything thereafter could be determined to be fraudulent.

Senator NUNN. That is a criminal violation, is it not?

Mr. BUCKLEY. Yes, sir, it is.

Senator NUNN. What statute is that a violation of?

Mr. BUCKLEY. 18 U.S.C. 1001, false statements.

Senator NUNN. False statements. What is the appropriate, in your opinion—you have had a lot of law enforcement experience—what is the appropriate agency for really intensifying its law enforcement effort here, and by that I mean criminal effort? Is the IG the appropriate one of the Department of Education, then turning it over to the Justice Department, in cases where the case is substantial, or should the FBI itself be more involved in it?

Mr. BUCKLEY. No, sir, I think that the Inspector General's office is doing a fine job in identifying. It is just a matter of manpower.

Senator NUNN. How many people do they have working on this? I will ask that question of the IG. You are just saying they are woefully undermanned?

Mr. BUCKLEY. They are woefully undermanned and I am sure they will tell you this morning that they want more law enforcement jurisdiction. A lot of Inspectors General have been telling us they want more law enforcement jurisdiction.

Senator NUNN. Now, you said the Department of Education is working on this problem. What are they doing now? What things are under way, either through changes in the law or through management?

Mr. BUCKLEY. Well, as you heard this morning, the Secretary's default reduction initiative has a series of regulations that are being implemented, some have been implemented. IRS tax offset programs, wherein once a loan has been defaulted, guarantee agencies may—they certainly do not have to, it is a voluntary program—provide the Department with the names and Social Security numbers of the people who are in default and then the Department turns them over to the IRS. So, that is a relatively new program. It has been continued under statute. I think one criticism we have there is it is not mandatory, guarantee agencies do not have to do this.

The Department is moving towards putting together regulations that require schools to give the consumer more information. If a school is to walk up to a potential student and say, "We want you to sign up for a class," they have to tell the student that, "Last year we had 100 peole sign up and only three graduated," that will probably impact greatly on the student's decision. Right now, that type of basic consumer information is not mandatory.

Senator NUNN. They are working on that now?

Mr. BUCKLEY. Yes, sir.

Senator NUNN. To make it mandatory?

Mr. BUCKLEY. Yes, they are.

Senator NUNN. What did you say was just a matter of discretion, not mandatory, the guaranty agency?

Mr. BUCKLEY. The guaranty agency participating in the tax offset program with the IRS, through the Department.

Senator NUNN. Is there anything else they are working on?

Mr. BUCKLEY. They have just instituted pre-certification training for presidents, CEO's and financial aid officers for any new schools that the Department is going to certify. There is a large number of schools out there that never received that type of training and they may attend, if there is room in the classroom, according to the Department. The Federal employee data match is another relatively new program. The Department provides a list of defaulted names, social security numbers. If they are Federal employees, then their salary will be offset also. Some States also voluntarily participate in that program.

Senator NUNN. If the scope of the problem is identified as a 10, how far, in your opinion, based on what you have done so far, how far will these reforms take us towards getting that down from, let's say 10 is the worst and 1 is the best, what is the scope of these reforms that are under way now, if they work?

Mr. BUCKLEY. Probably about 50 percent, sir. The people in the field we have been speaking to—and I mean department employees—consider most of the Department's initiatives in this area to be rear-end action and the Department says they need the ability of legislative authority to regulate the sectors more narrowly. I think if the Congress gave them that, it would probably help them out quite a bit.

Senator NUNN. How about sharing the risk? You heard GAO testify that one of the—it seems to me the things most fundamental that they were advocating would be sharing the risk by lenders more than they do now and sharing the risk by guarantee agencies. How do you assess that?

Mr. BUCKLEY. We have got a long way to go in our investigation regarding lenders and guaranty agencies, Senator. Originally, I think the program was laid out to be a shared risk and not guarantee more than 90 percent of a defaulted loan. Guarantors, of course, are wholeheartedly against that, moving it in the 1991 budget, I think they are talking about a 90 percent guarantee.

It would certainly, in my view, spur them to be much more responsive and conduct a lot more oversight.

Senator NUNN. Do you have any other suggestions here this morning, or do you want to wait until you get further along?

Mr. BUCKLEY. Senator, I think we have got a lot of work to do. We have done a lot of work and we have a lot further to go. I think it would be very helpful if we could sort of save our recommendations until we have closed it out.

Senator NUNN. Grace, do you have anything you would like to offer this morning?

Ms. MCPHEARSON. No, sir.

Senator NUNN. You are going to be testifying next week?

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. Thank you both.

We will next hear from James B. Thomas, Jr., Inspector General of the Department of Education. Mr. Thomas will testify regarding the major program weaknesses that his office has identified regarding student loans. He will describe the types of abuses his office has found in the school and lending industry.

We will also hear from Mr. Thomas regarding the general oversight problems that the Department of Education faces with respect to student loans.

Mr. Thomas began his career as an auditor with the Florida State Department of Education. He has also served as Inspector General for the Department of Housing and Urban Development and Director of Accounts for the Interstate Commerce Commission.

Mr. Thomas, we appreciate you being with us this morning. We would like you, if you would, to introduce your associates and then I am going to ask all of you to stand. We give the oath to all of our witnesses.

Mr. THOMAS. Very well, Mr. Chairman.

On my right is Mr. Laine, the Assistant Inspector General for Audit, and on my left is Thomas Strong, the Deputy Assistant Inspector General for Investigations.

Senator NUNN. Do you swear that the testimony you shall give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. THOMAS. I do.

Mr. LAINE. I do.

Mr. STRONG. I do.

Senator NUNN. Thank you.

Mr. Thomas, we are pleased to have you this morning and we appreciate your cooperation with the Subcommittee on Investigations and we look forward to your testimony.

TESTIMONY OF JAMES B. THOMAS, JR., INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION

Mr. THOMAS. Thank you, Mr. Chairman.

With your permission, I would submit the full statement for the record [1] and read to you a summary.

Senator NUNN. Without objection, it will be made part of the record.

Mr. THOMAS. Thank you for this opportunity to discuss the efforts of the Office of Inspector General regarding fraud and abuse involving the Department of Education's student financial aid programs.

OIG has assessed the student aid programs as being the most vulnerable to fraud and abuse in the Department of Education. This assessment is based in part on audits and investigations over the last few years which have disclosed major fraud and abuse in these programs, particularly at proprietary schools.

Because of this, we have been devoting about two-thirds of our entire staff effort to this area, about 200 staff-years of effort. We are involved in a comprehensive program to review systemic issues in student aid. The purpose of these reviews is to recommend legislative, regulatory or management improvements intended to prevent potential program abuses from occurring.

This effort is coordinated with our continuing investigations and audits of individual institutions participating in these programs. These audits and investigations identify institutions that are abusing the programs and recommend administrative action or action by prosecuting authorities, where appropriate.

We have continued to find numerous instances of fraud and abuse in proprietary schools. In fiscal year 1989, we performed about 30 audits of proprietary schools, which resulted in recommended recovery of about $77 million. Our investigations resulted in indictment of 10 school owners, three officers, 31 employees and one school entity and in conviction of 10 owners, one officer and 12 employees.

As a result of our efforts, the department has suspended two corporations operating proprietary schools and 12 key employees of proprietary schools and debarred seven proprietary school owners and 24 key employees under the government-wide non-procurement debarment and suspension system.

We are currently concentrating our efforts on about 215 investigations of proprietary school entities, officers and employees, 40 audits and nine joint audit and investigative efforts involving proprietary schools.

The OIG's review of student aid issue areas has resulted in 14 management improvement reports, which include recommendations to correct systemic weaknesses that have led or could lead to recurring problems.

I would like to provide a summary of the issue areas that we are addressing and have an interest in: First, the issue of accreditation eligibility and certification. Some program abuse can, of course, be eliminated if problem schools can be prevented from ever participating in the Department's programs.

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[1] See p. 135.

Before an institution can participate in the student aid programs, it must be licensed to provide postsecondary education in the State in which it is located, be accredited by an accrediting agency recognized by the Secretary of Education, and be determined eligible and certified by the Department as to its financial responsibility and administrative capability to participate in the programs.

Regarding the certification procedures for financial responsibility, our audit issued in September of 1989 disclosed that the department's financial analysis certification procedures were not adequate to protect students or the interests of the Federal Government. Institutions which do not meet the department's regulatory criteria for financial responsibility do participate in the student aid programs.

During the period of October 1985 through June of 1988, we estimated that 53 schools closed mid-term before all education services were provided. As a result, as many as 10,000 students lost the benefits of loans and grants worth about $30 million that either the students or the government must repay.

Senator NUNN. Now, whose liability is that, Mr. Thomas, if a school goes out of business before the student finishes their education? The student borrowed the money in many cases and the whole loan has been turned over to the school up-front and the student owes the money. Does the student have to take that as a loss or does the Government that the loss?

Mr. THOMAS. The student must take that loss, but I would think that, generally speaking, the student would refuse to pay, in many cases, anyway, and at that point the Government, of course, winds up with the loss.

Senator NUNN. So, even if the student had nothing to do with the problem, went in, in good-faith, borrowed the money, went to school, attended classes, worked hard, and the school goes out of business, they still owe the money?

Mr. THOMAS. That is correct, sir. In some cases, there are teach-out arrangements made and that is one of the requirements under some of the proposals made by the Secretary, where an institution has to have a teach-out arrangement with other institutions, where the student would be protected.

In addition to that, some States have set up funds into which students, through schools, pay, so that "in state" students are protected in case a school goes out of business, but this is not a universal thing. It is just State-by-State.

Senator NUNN. Is there no limit on how much you can collect in advance before the services are rendered? Are a lot of these schools collecting a total amount of money in advance?

Mr. THOMAS. The tuition, sir?

Senator NUNN. Yes.

Mr. THOMAS. Yes, I would say that, generally speaking, the tuition comes in—I believe that there are two disbursements, part originally and part later, in the major programs, but usually that money comes in pretty close to the front of the stream.

Senator NUNN. Okay. Go ahead.

Mr. THOMAS. Our as-yet unfinished work in the area of accreditation, eligibility and administrative capability certification process is showing the following:

The Department's recognition process does not provide assurance that accrediting bodies recognized by the Secretary are reliable sources as to quality of educational services provided by the schools that they accredit.

Secondly, primary reliance for eligibility determination is placed on State licensing and accreditation, which is inconsistent and of varying degrees of quality.

Third, institutions are being certified to participate and continue to participate in student aid programs, even though they do not meet the criteria for administrative capability.

Another issue involves branch campuses. Schools are not eligible to participate in student aid programs until they have been in operation for two years. Under current procedures, branch campuses are not held to this requirement.

On the basis of its history of operating a small barber school with about 20 students at any given time who received about $50,000 in student financial aid, one school was determined able to be financially and administratively capable to operate a masonry school in a major metropolitan area over 300 miles away. Within 9 months, the masonry school enrollment reached a total of 700 students, receiving nearly $3.5 million in student aid funds. The branch was able to grow so quickly because it bused students, some of whom were homeless street people, in from several other cities. It closed owing many refunds to enrolled students, as well as to students who had previously withdrawn.

Senator NUNN. Somebody had to approve of that branch, did they not, or was that branch just automatically accepted?

Mr. THOMAS. The branch pretty much is automatically accepted.

Senator NUNN. There is nobody that has to review that, the guarantee agency does not have to review it, nobody from the Department of Education?

Mr. THOMAS. That is correct, Senator.

Senator NUNN. Is that a flaw in the law or the regulations?

Mr. THOMAS. It would seem so. It would seem so, and I believe that is inconsistent also among the institutions accredited by different accrediting agencies. I think different accrediting agencies have different rules relative to branch campuses.

Senator NUNN. But that is up to the accrediting agency, not up to the—there is no uniform Department of Education regulation or law that would cover that?

Mr. THOMAS. I believe that is so, Senator.

At another school licensed and accredited in 1981, tuition grew from $2 million a year to $26 million, as it opened 20 branch campuses between 1983 and 1986. This school closed in 1987, owing $10 million in tuition refunds and leaving thousands of students with incomplete educations.

We believe that most of the problems with branch campuses could be eliminated by merely enforcing existing legislative intent. Therefore, we recommended that the Department require a branch campus to be in existence for 2 years before it is allowed to participate in student aid programs.

In another issue area, we found that, in order to qualify for student aid funds, certain schools have misrepresented their course lengths or padded courses until they are longer than needed to train students for employment.

Senator NUNN. Mr. Thomas, let me back up just a minute. You say you recommended that the Department require a branch campus to be in existence for 2 years before it is allowed to participate in student aid programs. When did you make that recommendation?

Mr. THOMAS. That is a recent recommendation, Senator.

Senator NUNN. Recently?

Mr. THOMAS. Yes, sir, in February 1990.

Our report on course length disclosed that, while the department's current eligibility determination procedures require institutions to submit course length data, the data are not always verified either by the appropriate accrediting agency or by the Department.

For example, the Continental Training Services case is an example of the problems which arise when course length is not verified. In September of 1988, the Department of Justice and the Department of Education filed a civil suit for $366 million, charging Continental Training Services and Superior Training Services, and the primary owner of both companies, with defrauding the Federal guaranteed student loan program.

Superior was in almost every State in the Union and was receiving about $50 million a year in grants and loans made to the students. Through Superior, the owner and Continental offered part correspondence, part "resident training" truck driving and heavy equipment operation courses which were sold to students by a nationwide commissioned sales force. About 99 percent of Continental's annual revenue came from tuition income and the majority of Continental's students paid their tuition with Federal student aid funds.

The lawsuit alleges that Continental obtained eligibility to participate in departmental programs by submitting false documents regarding the length of its courses and the procedures it used to assure that students possess the ability to benefit from the courses.

In terms of course stretching—our management improvement report disclosed the results of our review of three occupations, security guard, nursing assistant and manicurist, although we believe the problem is not limited to those three. We found that courses were much longer than needed for State licensure or to obtain employment.

As an example, although many States have no formal training requirements for security guards, and those that do require between 4 and 60 clock hours, it is not uncommon to find schools offering security guard training courses of 300 to almost 700 hours. In those schools, not only has the course length been stretched 10 to 25 times beyond State licensing requirements, but there is concern that some of the tactics taught are dangerous and involve devices such as "the flashlight as a defensive weapon" and the "A-15 assault rifle," which cannot or should not be used by most security guard companies.

Further, students attending these course pay as much as 38 times as much in tuition as charged at other institutions such as a local community college.

Our management improvement report on clock to credit hour conversions advised the Department to take action to limit abuses that occur when schools assign unreasonable credit hours to clock hour training programs, solely to obtain additional funding.

At one school in Oklahoma, a 9-month dental assistant program, which was a one academic-year/900 clock hour program, equivalent to no more than 24 semester hours, was converted and assigned 2 academic years and 48 semester hours. After the conversion, student aid maximum awards increased from $4,800 to $9,700.

At the same school, the x-ray technician program, which was 1,300 hours/35 credit hours long, was converted to more than 78 credit hours. This increased the program's student aid funding qualification from $8,500 to nearly $18,000.

Another issue area we have focused on is the ability to benefit and admission practices. In November of 1989, we issued a management improvement report which discusses how certain schools improperly screen students to assure that they have the ability to benefit from the federally-funded training provided. Students without a high school diploma or equivalent may enroll in an institution under an ability to benefit provision, as determined by a test or counseling, and be eligible for student aid.

Our draft audit report on a chain of 14 technical schools describes how students at the chain received $37 million, even though at the schools we visited, students were not properly tested to determine their ability to benefit.

In the case involving Continental, which I mentioned before, the lawsuit alleges that Continental employees altered wrong answers on ability-to-benefit tests, which changed failing grades into passing grades, or provided the potential students with answers to assure that the individual could enter the school. Individuals who had physical disabilities which would prevent them from driving a truck or from obtaining a license to do so were enrolled. Individuals were enrolled who could not get licenses because of prior driving or criminal records or who were serving prison sentences at the time which could prevent them from attending resident training within a reasonable period of time.

As a result of the Office of Inspector General's investigation, a Boston grand jury returned a 12-count indictment in October of 1979, charging Wilfred American Education Corporation, Wilfred Academy, Inc., and American Business Institute, Inc., with mail fraud involving a scheme to defraud the department's student aid programs of over $10 million.

The indictment alleges that the defendants, through its employees, engaged in a complex scheme from prior to 1979 until at least 1986, to defraud the Department, Wilfred's students and prospective students by means of false and fraudulent pretenses, representations and promises, and material omissions, including falsifying ability-to-benefit tests.

Our audit of Ultissima Beauty Institute showed that the school used four different tests to determine whether students could benefit from training. One of the tests was a bogus exam, according to the exam publisher. Two other tests were untimed or otherwise improperly administered in ways that invalidated the results. Tests available only in English were included in files of non-English-speaking students, and many of the files contained answer sheets that appeared to have been altered. Ultissima employed commissioned sales persons, and through interviews and a review of the school's sales manual, we found that ability-to-benefit tests were used largely as sales tools, rather than to properly screen students' abilities.

Our audit of the Hausman Computer School disclosed that this school used false high school diplomas to admit virtually all of its students.

Senator NUNN. Excuse me. What is happening to these schools, once you make these findings? What happened to Wilfred, what happened to Ultissima?

Mr. THOMAS. Well, in the case of Wilfred, they have been indicted in the jurisdiction of the State of Florida, as well as in Boston, and trial in Florida is scheduled for the first week in March, so that one is pending.

Ultissima, I am advised by Mr. Strong, is pending before a State court at this time.

Senator NUNN. A criminal case?

Mr. THOMAS. Yes, sir.

Our audit of the Hausman Computer School disclosed that they used false high school diplomas to admit virtually all of its students. The audit recommended refund of all Pell Grants and guaranteed loans received, a total of about $24 million, and repayment of interest and special allowances. Based upon our investigation, the two owners were both sent to prison and ordered to pay about $1.8 million back to the government.

In the issue area of refunds, we found that certain schools are not making required refunds of federally funded tuition when the students drop out of training, which results in increased costs to the student borrowers in terms of amount of debt and to the department in terms of interest and special allowance payments and defaults when they occur.

For example, our audit of the National Technical Schools, in Los Angeles, disclosed that the school did not make refunds to students who had withdrawn by not submitting lessons. We found about $3 million owed to students under the school's refund policy. In addition, we found that the school's policy was not fair or equitable and that students were overcharged a total of $75,000 for registration fees and over $380,000 for equipment that they did not receive.

In November of 1989, the California Attorney General filed a consumer protection action against the school in superior court, alleging that the school made numerous false representations about its teaching program. The suit asks for $22 million in restitution and $2 million in fines.

We have identified two issue areas involving lenders participating in the student aid program. These are performance of due diligence requirements to assure collectability of loans, and payment of origination fees due to the department for each loan.

Lenders participating in student loan programs are required to perform certain actions within specified time frames, to help assure the collectability of student loans. These actions constitute due diligence in loan management. To determine whether lenders were meeting the due diligence requirements, we analyzed the results of 101 lender reviews conducted by 13 guarantee agencies during 1987 and 1988, and found that 87 percent of the lender files reviewed contained what we considered to be due diligence exceptions.

The Baybanks Credit Corporation is an example of due diligence problems, as disclosed by our investigation. On February 2, 1990, the Baybanks Credit Corporation pled guilty in Boston to a one-count information charging the corporation with fraud involving falsification of documents related to the guaranteed student loan program. As part of its plea, the corporation agreed to pay a $500,000 criminal fine and make restitution of almost a quarter of a million dollars to the department.

There was evidence that officers directed student loan collectors to fabricate computerized records of collection activities in the collection correspondence and 60-day delinquency notices. There was evidence that student loan collectors back-dated collection cards and collection correspondence. Collectors and some officers also traced signatures onto forbearance agreements.

Another example of the due diligence problems is Florida Federal Savings Bank. A Federal grand jury in Tampa, Florida, returned a 43-count indictment in September of 1989, alleging that the Florida Federal Savings Bank, through its officers and employees, submitted up to 17,000 fraudulent insurance claims, worth approximately $35 million, for principal and accrued interest on guaranteed student loans.

The indictment charges Florida Federal and two former officers. It alleges that default claims were supported by documents falsely reflecting that certain collection activity was performed on the loan accounts and that the two former officers instructed other bank employees to create false records to show that required collection activity was performed.

Senator NUNN. Let me ask a question here. When somebody files 17,000 fraudulent insurance claims, worth approximately $35 million, that must indicate they think that the people they are filing those with are incompetent. I mean, what is the reputation out there in the field of this program and those who administer it? Is it one of just pure, total incompetency, or is it one of staff being so overwhelmed that they cannot possibly handle the job? I mean you just do not see this kind of flagrant efforts of fraud, unless people think that everybody who is managing the program is asleep. Do you?

Mr. THOMAS. It is always difficult to characterize these and try to ascribe reasons or motives for people's actions, Mr. Chairman. Certainly, the people who would do this would feel that they would not be detected or else they would not do it. That would have to be the conclusion that one would reach.

In the case of Florida Federal, they would have gone to the guarantee agency with these 17,000 claims that we allude to there, and ultimately on to the Federal Government for reimbursement.

Senator NUNN. Well, do you know of anything like this that occurs in the non-governmental world?

Mr. THOMAS. Well, not being that familiar with it, all I know is what is in the papers on the Federal savings and loan thing, and it seems like that is pretty substantial, perhaps in other areas than student loans, maybe some of the other kinds of activities that they have as well. I really do not know specifically.

Senator NUNN. How was this detected? Did the guarantee agency determine that these were fraudulent, or did somebody go in and audit it, or what happened?

Mr. THOMAS. As I recall, on this one we received information from a former employee. The former employee had notified the institution itself and they had notified the Federal Government and we did some investigative work, we were assisted quite a bit by the Federal Bureau of Investigation, and through the United States Attorney in Tampa the indictments came about. I think that they did originally discover this inside by an employee.

Senator NUNN. Okay. Go ahead.

Mr. THOMAS. We have also found some problems with the SLS program, that the General Accounting Office referred to this morning. Certain proprietary schools have increased their tuition fees and have improperly certified dependent student eligibility for SLS loans, which increases the volume of SLS dollars coming into the schools.

To illustrate, our ongoing audit of a chain of beauty schools disclosed that the schools' tuition increased at the same time that the SLS program was introduced to the proprietary schools sector. In September of 1985, tuition at the school was $4,395. In March of 1988, when the SLS money became available, tuition increased to $9,007. At another school, tuition increased from $3,950 in 1986-87 to $6,550 in 1989-90, but will decrease to $4,000 in 1990-91, because, according to that school's director, the school lost its participation in the SLS program.

We also have some concern about the PLUS program that you heard the General Accounting Office talk about this morning. Current PLUS regulations do not require loan recipients to appear before either the lender or the school. Loan proceeds are sent directly to the parent borrower on behalf of an eligible student, whereas the proceeds of other guaranteed loans provided to students are sent directly to the school the student plans to attend. Further, PLUS loan checks are made payable to the parent borrower, whereas the other loan checks are made co-payable to the student and to the school. Recent investigative cases have illustrated the ease with which ineligible or nonexistent applicants can receive PLUS loans.

One other area I would like to cover is that of the non-Federal audits of schools participating in the student aid programs. All institutions of higher education are required to obtain audits by non-Federal auditors at least biennially. In accordance with the Inspector General Act of 1978, we are required to assure that these audits meet the auditing standards issued by the Comptroller General.

During fiscal year 1989, we performed desk reviews on over 3,000 student financial aid audit reports. A desk review is a review of an audit report by the Office of Inspector General in our own offices. Of the audits that we desk reviewed, 835 or 27 percent of them were found to contain significant inadequacies or other deficiencies. We also performed quality control reviews, which means we go to the CPA's offices and review their workpapers, on 192 audit reports. Of these audits, 114 or 59 percent were found to contain significant inadequacies or other deficiencies.

In the most egregious of these cases, we refer the auditors to the State boards of accountancy for appropriate disciplinary action and to the American Institute of CPAs for whatever ethics actions they have responsibility for. We have made 46 such referrals since April of 1985. We hope to see a noticeable improvement on audit quality in 1990. This is the first full period in which audits conducted in accordance with the May 1988 audit guide are due. Audit quality will, we hope, be improved by the use of the new audit guide, by the training that we provide to practitioners, and by technical assistance provided to practitioners and others.

Mr. Chairman, Mr. Levin, I appreciate this opportunity to be before you and my colleagues and I would stand ready to try to respond to your questions.

Senator NUNN. Thank you very much, Mr. Thomas, for your testimony here today, which I must say is a pretty discouraging picture of the status of this overall program, particularly the proprietary area.

How many staff people do you have now overall, and how many do you have working in this student loan area in the IG office?

Mr. THOMAS. For fiscal year 1990, the current fiscal year, Mr. Chairman, I have a total staff assignment of 330 people. Of that number, we have a little over 200 that are devoted exclusively to student aid, which makes up about 45 percent of the department's budget, about 65 percent of my staff.

Senator NUNN. So, two-thirds of your IG staff, roughly, are working in the student aid area?

Mr. THOMAS. That is correct, sir.

Senator NUNN. Do you know how many people are in the Department of Education, not your shop but the other parts of the Department, are working on student aid?

Mr. THOMAS. No, sir, I have no way of knowing that—very large numbers, though, in the postsecondary education area, in particular, as well as some, of course, in the accounting system areas.

Senator NUNN. Is it true that these people in the programmatic area are divided up, that there is no one Assistant Secretary, there are several that this jurisdiction comes under?

Mr. THOMAS. Well, I would not characterize it the same way that I have heard previously this morning. The Assistant Secretary for Postsecondary Education has administrative responsibility for all of the postsecondary education programs. Under him, there are two Deputy Assistant Secretaries. One is a Deputy Assistant Secretary for Student Financial Assistance. In this case, it is a lady named Bobbie Dunn, and she has responsibility for all of the student aid programs.

Now, once you get below her, then they begin to be broken out functionally, so that the loans and the grants are kind of intermingled at that point.

Senator NUNN. So, you think that there is some accountability, then?

Mr. THOMAS. I think that you could say that Bobbie Dunn and, then above her, Leonard Haynes, the Assistant Secretary, would be held accountable for these programs.

Senator NUNN. How many people do you need—you say you have got 300 working on this problem or 300 total?

Mr. THOMAS. 330 total, a little over 200 working on the student aid activities.

Senator NUNN. To do your job in this area, just this area, how many do you need? Have you got enough?

Mr. THOMAS. Well, Mr. Chairman, there is never enough, it seems. We have presently over 200 cases on our investigative side, dealing with corporate entities, institutions, owners, employees participating in student aid programs, and you could tell from the numbers that I alluded to a moment ago, that it takes a long time to get through these cases. Generally speaking, they are very paperwork intensive and very time-intensive, it takes a long time.

One of the cases I alluded to, we started in 1984. We just had the indictments in 1989, so it took 5 years. At any one time, we had 25 or 26 people working on that one case around the country. So they are very, very staff-intensive.

We have at the present time—this past year, we did about 30 audits with our staff. Well, there are approximately 7,000 proprietary schools and, in some cases, independent branches out there, so you can see the numbers that we cover with our audit staff is relatively small and, generally speaking, those that come to our attention of having significant problems.

Senator NUNN. What do you need to really cover, what percentage do you need to cover them?

Mr. THOMAS. We have anticipated that with a staff of about 510 people—and this is what I have testified to before in the budget presentation—with a staff of about 510, that we can get virtually all of our priority work done.

Senator NUNN. That is approximately 80 percent more than you have now?

Mr. THOMAS. Well, from 330—the 1991 budget that the President has submitted increases that staff from 330 to 360, so that is, in essence, a 9 percent increase, 150 difference in that.

Senator NUNN. A 60 or 70 percent increase, anyway?

Mr. THOMAS. Yes, sir, whatever that number is. I did not work it out, Senator.

Senator NUNN. Are we seeing just the bad apples here, or, as the previous testimony, are there whole orchards in this proprietary school area, whole orchards of bad apples out there?

Mr. THOMAS. I wish there was some way that we could tell that, because that question comes up frequently. It comes up when I testify, it comes up with the Secretary when I talk to him and with the Assistant Secretary, and there is no way to tell. It seems like, though, that with a high degree of regularity, a new institution keeps coming to our attention and we continue to go into it, either through audit or through investigation.

I certainly would not go on record as saying that the preponderance of the proprietary schools out there are bad apples. I do not believe that. But if you have got 7,000, what percentage has to be bad to occupy you full-time and to really cast a big shadow on the overall program? One of the things I would mention is that many of the schools that we have been involved in have been the bigger ones, the Wilfred American, for example, one of the largest six or eight schools in the country. Superior was one of the largest six or eight schools in the country, and there are others that we are involved with now which are among the top ten.

So, even though the number of institutions are perhaps small, proportionately, the dollars are very, very significant, very large.

Senator NUNN. How do you assess the accreditation, the eligibility and the licensing and certification process which allow the participation of certain schools in the SEA program? How do you evaluate that?

Mr. THOMAS. We have done some work in that area, Mr. Chairman, and we find quite a few problems in it. It seems that each one of those appears to be relying on the other one to have done something that the other one did not feel they were accountable for.

The accreditation is done by an accrediting organization which is recognized by the Secretary, so the Secretary has the opportunity to weed out bad accrediting organizations. We have found that that weeding-out process, that oversight process, has some flaws in it. We have issued a report recently on that area.

Once a school is accredited, then it is licensed by the State, sometimes before, sometimes after, but it is licensed by the State and we have found that, in your native State of Georgia, I think as you read in your statement this morning, there are only two people in Georgia to do the licensing for all the State and, therefore, the amount of oversight that they have is very low.

Last week, I was in the State of Louisiana and I was told that one person and a secretary do all the licensing activity there, and they have very large numbers of proprietary schools.

Senator NUNN. Does that mean the Federal Government is going to have to take this over, or is there some way to give the States some incentive to devote more effort in the area?

Mr. THOMAS. I would hope the latter, Mr. Chairman. I think that when you begin concentrating more and more authority and more and more responsibility in an area, you have more and more opportunity for difficulties. I think that the——

Senator NUNN. You would rather leave it at the State level and find some way to strengthen their incentives to——

Mr. THOMAS. Yes, sir. What we have tried to do in my own office, Mr. Chairman, is work with some of the State organizations to share with them, as we can, information so that we can help have a program with higher integrity. The third level of that three gates, if you will, the first being accreditation, the second being licensing, the third being that of eligibility and certification, these are the two areas that are done by the department.

The issue of eligibility is a determination as to whether or not the school has been licensed and accredited, and then the issue of the certification is that of determining the financial responsibility and the administrative capability of that organization to carry out the student aid programs in accordance with certain criteria.

What we have found, again, is deficiencies that the department has in carrying out those responsibilities. During one recent 3-year period, I believe ending in 1988, the Department certified about

2,000 schools, and of those 2,000 schools, it put about 500 of them on a watch list, those that they had questions about their administrative capability or their financial responsibility, and of that number, about 150 of them went out of business, including the 53 that I alluded to in my testimony, where a large number of students and perhaps the Government were harmed along the way.

Now, perhaps if the Department were a bit more diligent and not let those schools in that gate through the determination of certification, then some of those students could have not been harmed and the Government could have been less harmed, and we are in the process of proposing changes in that area to the department at this time.

Senator NUNN. I am told by the staff that when you uncover criminal wrongdoing in a particular school, that that one case essentially drains the Inspector General capabilities in that region. Is that true?

Mr. THOMAS. Well, that can certainly be a spot problem, yes, sir. We have, as I mentioned, two major cases in Florida, both of which are preparing for trial at the same time. As a matter of fact, they were both scheduled for trial today, this day, February 20, 1990. But because of one thing or another, they have both been postponed for a period of three or four weeks.

Now, with both of those cases preparing for trial, both of them being massive cases, in fact, does stretch our resources very thin and we, in fact, had to send people down from the Washington staff and from two other regions in order to help get over that hump. So, that is a difficulty, one which we just shift priorities and deal with.

Senator NUNN. Have you taken a look, Mr. Thomas, at the advisory committees or councils that are supposedly set up to advise the Department of Education in these areas and how they are working?

Mr. THOMAS. We have looked at some, one in particular, and that is the one I alluded to a few moments ago, and that being the one that advises the Secretary on the recognition of accrediting agencies. We issued a report recently on that activity and we felt that part of the problem we found there was that the staff and the committee were not using the information that was available to it in making a judgment on whether to recommend a program to the Secretary, whether to recognize or not recognize accrediting bodies. So, yes, sir, we have looked at some of those.

Senator NUNN. Overall, do you think they are doing an adequate job, a good job, a bad job, or how do you assess it?

Mr. THOMAS. I do not think I could assess it in that overall fashion. I would say that there are some deficiencies in it. Do I think it is salvageable? Yes, sir, I do. One of the things that constantly is a source of nagging problem is the fact that the people who are on that advisory council, in order to get knowledgeable people, these are some of the same people who are involved with the accrediting organizations, and so there is this—I hate to use the term incestuousness, but no other one comes to mind right off—where the same people are advising the Secretary, who are working on the outside with the accrediting organization. Perhaps that is the only way it can be, in order to have people who are knowledgeable in that area. I do not know, but certainly that is a nagging problem that we confront.

Senator NUNN. Have you brought that to the attention of the Secretary?

Mr. THOMAS. Yes.

Senator NUNN. Has your office reviewed the Department's use of available information concerning schools, such as program reviews, audits, applications or accrediting body files? If so, what have been your findings there?

Mr. THOMAS. The findings, I would say, Mr. Chairman, are mixed in that area. There is a wide variety of information in the Department that is available to folks. Some of it is accessed and some of it is not accessed. What we routinely do, when we go out to do an audit or an investigation, is we check to see whether there have been program reviews, whether there have been guaranty agency reviews or any other kind of reviews, and we use that as a good source of information, in order for us to structure some of what we are going to do when we go into an organization.

What we find, though, is that in some cases in the department there are pockets of information which are not accessed or accessible by other parts of the organization.

Senator NUNN. Do your general findings in this overall area apply strictly to the loan programs, or are they also applicable to the Pell Grant program?

Mr. THOMAS. They would be applicable across the board to the student aid——

Senator NUNN. Just wherever the money is?

Mr. THOMAS. That is correct, sir. As a general rule, the only difference in the requirements has to do with course length between the grant and the loan programs, but other than that, substantially the requirements are about the same.

Senator NUNN. Is your office active in referring cases to the Justice Department for criminal prosecution and do you get cooperation from the Justice Department in criminal cases, generally?

Mr. THOMAS. Yes, sir. The Inspector General Act requires that, when we find fraud against the government, that we work closely with the Department of Justice and we do with local United States Attorneys. Our case agents in the field work very closely with the Assistant U.S. Attorneys in the jurisdiction where we find problems and we work very closely, of course, with the Department of Justice, and here we also have been supported rather well, I would say, by the Federal Bureau of Investigation in some cases where we had to have a very large number of people on the street at any one particular time.

Again, going back to a couple of cases I mentioned this morning, with the magnitude of them, there was just no way that our staff could cover the number of people that had to be interviewed, sometimes 600 and 800, and in the locations that they had to go, and so the FBI has been very supportive in helping us get through that.

The other part of it, of course, is our ability to carry out the responsibilities. There are certain things that we try to do that we do not have the power or the authority to do, and this has to do with the full law enforcement authority which you have heard about, perhaps, from other Inspectors General. Frequently, it gets to a point of serving a warrant or making an arrest or something of that kind, where our staff has to back away and bring one of the traditional law enforcement agencies in, at their convenience, to carry out those activities and we have to just sit and wait.

On the other hand, we have agents who have worked the case right up to the closure and then have to back away from it. They would be the ones that would have the knowledge of what records to look for and what records to look at, once you go in to serve a search warrant, for example. It makes it very difficult to carry out those functions.

Senator NUNN. You have heard the staff report this morning and I assume you have had a chance to at least give it a preliminary assessment. I do not know whether you have had a chance to read it in advance. Do you generally agree with the portrayal of the problems presented by Mr. Buckley this morning?

Mr. THOMAS. I have not had a chance to read that statement, Mr. Chairman. I would like to reserve the overall characterization until I have had a chance to do so. Certainly, I agree with many of the points that he made, because——

Senator NUNN. Do you take exception to any particular point that you heard this morning?

Mr. THOMAS. The only one that comes to mind immediately is the one that you already mentioned, that being——

Senator NUNN. Accountability?

Mr. THOMAS [continuing]. Accountability, yes, sir. That is the only one that comes to mind.

Senator NUNN. Would you let us know when you have had a chance to review it, whether you disagree with any parts of it?

Mr. THOMAS. Yes, I would be happy to.

Senator NUNN. Thank you.

Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

Let me commend you for your tenacity in this area. You have had a long-standing interest in this issue and you have pursued it, as you always do, with great firmness. Everybody is in your debt for doing so, and your staff as well.

Mr. Chairman, I have an opening statement that I would like to have inserted in the record.

Senator NUNN. Without objection, it will be made part of the record, Senator Levin.

Senator LEVIN. Thank you.

[The opening statement of Senator Levin follows:]

OPENING STATEMENT OF SENATOR LEVIN

Mr. Chairman, I was in Detroit, Michigan, during the height of the scandal involving the HUD single family mortgage insurance program in the 1970's. We witnessed a well-intentioned program—getting low and moderate income people into homeownership—go sour, leaving behind over 10,000 abandoned homes. That scandal sounded much like this one—falsified applications, ineligible participants, bad management, little oversight from the federal government, few programmatic protections. It seems like we never learn—or never choose to learn.

Here we have programs involving one of our highest priorities as a society—the education and training of our young people. We cannot afford to squander one of our precious education dollars, much less the hundreds of millions we have been told are being lost because of poor program design and mismanagement.

We've got to turn this problem around—now. We've got to take the recommendations we will hear about today from the Education Inspector General and the GAO and get them in place as quickly as possible. That may require more staff—more auditors. But although the upfront costs may be greater, the long run savings—in dollar and human talent—will be worth it. We've learned that from the savings and loan disaster.

I commend you, Mr. Chairman, for keeping our attention on this massive problem. There were hearings and promises several years ago, but obviously much more needs to be done. I offer my assistance in working with you and the subcommittee to make sure that the necessary management reforms be implemented.

Senator LEVIN. Mr. Thomas, you testified a moment ago that a 1989 audit disclosed that the department's financial analysis certification procedures—these are procedures to make sure that a school's financial analysis is in decent shape, that it is accurate and in place—were not adequate to protect the Government or to protect students. And I think you gave some figures a few minutes ago that of the 2,000 schools that you looked at, 500 were put on a watch list, I believe.

Mr. THOMAS. That is my recollection, yes.

Senator LEVIN. How many schools were actually de-certified?

Mr. THOMAS. To the best of my knowledge, not any, Senator.

Senator LEVIN. Why is that?

Mr. THOMAS. I do not know specifically why that is. I know that the due process is a very cumbersome thing in the Department. For example, one of the institutions that I alluded to earlier this morning, having to do with the $366 million lawsuit that the Government had, the Assistant Secretary, shortly after that lawsuit was filed, took the tact that that school should be made ineligible. In fact, he made the statement that that school is not now and never has been eligible to participate and, therefore, tried to remove its eligibility and that process is still in the courts today, and that was roughly a year and a half ago that the Assistant Secretary tried to take that action.

Senator LEVIN. So, a hearing is required before a school is de-certified or rendered ineligible because of auditing failures?

Mr. THOMAS. It was not prescribed so, but the courts held that it should have happened. In other words, there was not anything in the regulations or the statute that would say that, yes, you have to do that, but when a temporary restraining order was issued, then the courts said that should have happened within the department.

Senator LEVIN. Would it be better for us to have eligibility certifications run for a certain number of years and then have to be renewed? Would that make it easier for us not to renew eligibility or certification in such obvious cases of failures of procedures on the part of these schools?

Mr. THOMAS. Senator, I think that, as we think about these things, we are all searching for an answer and I am not sure that there is an answer. I think that there are a lot of bits and pieces to it. Whether, for example, the school should be relicensed and whether there is some criteria that should be presented at that point, whether they should be made to be re-certified and they have to come in with new statements, et cetera, I think each of those things is an element to be considered and part of the process to improve the integrity of the program, certainly.

Senator LEVIN. Would you give us a recommendation on that issue, whether or not we ought to require mandatory re-certification of eligibility, if schools go above a certain level of defaults or some other standard, so that we do not have to take something away that is part of an original approval?

Mr. THOMAS. Yes, sir, we would be happy to do that.

Senator LEVIN. It is interesting that we have 500 on a watch list and not one of them was ever de-certified. You said 150 of them went out of business, but that was not our action.

Mr. THOMAS. Yes, sir.

Senator LEVIN. That is a large number of schools that are soaking up a large amount of taxpayer dollars.

Mr. THOMAS. Yes, sir.

Senator LEVIN. They just continue in operation, receiving these benefits from this Federal program, and we really do nothing about them but watch them.

You have also looked at the accrediting agencies and indicated some problems, apparently, principally in the proprietary area, is that true?

Mr. THOMAS. Yes, sir, those are the ones that we have found the most difficulty with.

Senator LEVIN. Now, do we do anything to recognize or not recognize an accrediting agency of a State? Is there any test that we apply? If a State has an accrediting agency, that is it as far as we are concerned, we accept their conclusions?

Mr. THOMAS. The existing law and regulations call for the Secretary to recognize an accrediting association.

Senator LEVIN. Have we ever not recognized an accrediting association?

Mr. THOMAS. I do not believe we have. I am told that there have been some cases where they have originally come in and we have not recognized them at that time, but once in, we do not have any knowledge that we have ever gotten one out.

Senator LEVIN. Do we have any process to get one out, to de-recognize them?

Mr. THOMAS. There is a cyclical review process that is required. I believe it is a 5-year review process, that this advisory council comes in and does make reviews on a 5-year cycle.

Senator LEVIN. Is there any one thing that you can tell us about that you are recommending to improve that process? We have a whole bunch of schools that are accredited that should not be, that are fly-by-night operations that are abusing this program—how can we tighten that up?

Mr. THOMAS. Well, one of the things that we are recommending in this specific area of recognition of accrediting agencies is for the government to use the information that it has available to it. We know, for example, that in a recent advisory meeting, it came to our attention that there was a variety of information in the department that was not presented to the advisory committee, and had it been, the advisory committee may have made a different decision.

We have found that the amount of research that is done ahead of time to prepare for these advisory committee meetings is limited, we are told, by the staff availability in the department to provide the staff support for the advisory council.

Senator **Levin**. Do you have a watch list for accrediting agencies in some States which have just not done their job?

Mr. **Thomas**. We do not have a watch list, as such, no, sir.

Senator **Levin**. Can you identify any accrediting agencies in any States that, as a matter of fact, have a very bad record in terms of accreditation?

Mr. **Thomas**. To my knowledge, there is no such list.

Senator **Levin**. Should there be?

Mr. **Thomas**. Perhaps. Perhaps.

Senator **Levin**. Is it easy to identify, computer-wise?

Mr. **Thomas**. There is not an information base anywhere from which that kind of information could come. But the other part of that is that, again, we only look at a portion of the schools that a particular accrediting agency accredits, and to say that this very bad one was accredited [illegible] therefore, to say that the accrediting process is not good is kind of a giant step, and to say that that accrediting body should have sanctions taken against it may not be a fair statement, and so it is very difficult because of the number of——

Senator **Levin**. You could at least ask those accrediting bodies that have a large number of schools that have been accredited that end up on our watch list, what percentage of the schools they accredit are on the watch list. You could do that?

Mr. **Thomas**. Yes, sir, we could do that and that would certainly be part of the criteria that could be used by the department in its recognition processes, how many——

Senator **Levin**. As far as you know, we do not do that?

Mr. **Thomas**. Correct.

Senator **Levin**. We have heard a lot about the default rate and assume that that is the key indicator of schools' performance, is that correct?

Mr. **Thomas**. I am not sure that it is in and of itself, Senator.

Senator **Levin**. I thought that, in the Reconciliation Act, that we cut off SLS loans to schools that had default rates of a certain percentage or more.

Mr. **Thomas**. That is my understanding, yes, sir.

Senator **Levin**. So, it was a key indicator, at least from Congress?

Mr. **Thomas**. It was a key indicator and I think that was a very good move. My own recommendation is that those provisions in that Act should be put into the Higher Education Reauthorization Act when it comes about in 1990–91.

Senator **Levin**. Well, I have some difficulties actually with that, because it seems to me that you cannot and should not just look at default rates.

Mr. **Thomas**. I agree with that.

Senator **Levin**. Well, if you agree with that, then we ought to put some other indicators in there besides default rate. Would you agree with that?

Mr. **Thomas**. Yes, sir, I sure would.

Senator **Levin**. Because is it not true that some schools that have a high default rate may be doing a better job of reducing that rate than some schools with a lower than 30 percent default? In other words, you have got some school populations, because of circumstances and background, that are a high-risk population in terms of paying back loans. Is that not a fair statement?

Mr. THOMAS. I would say that is true.

Senator LEVIN. And those schools that take on that challenge, and it is a challenge for many schools, should not be punished if they are doing a good job of handling their student loan program, even though they might have a default rate that is higher than some other school that has a lower-risk population. Is that fair?

Mr. THOMAS. Yes, sir. That is why I stated earlier, Senator, that I do not think there is any one easy way to get to that right answer. That certainly is a consideration.

Senator LEVIN. So, would it then be fair to say that you would encourage us to have a more sophisticated standard, in terms of penalties, than simply what the default rate is?

Mr. THOMAS. That is right. That is correct.

Senator LEVIN. As I look at the default rates, for instance, in my State, I recognize some schools that have higher default rates that are very solid, good schools, that have good loan programs, but have a population of students that, because of economic circumstances and background, makes it far more likely that they have a higher default rate than some other schools that have lower default rates, and I do not think we ought to punish those schools or the students that go to those schools, providing their loan program is well-handled, providing they have good auditing procedures and do all the other things which should be required in a good loan program.

Mr. THOMAS. That sounds reasonable to me, yes, sir.

Senator LEVIN. I just have one other question, Mr. Chairman. Shall I take a moment and do it?

Senator NUNN. Go right ahead.

Senator LEVIN. As I understand it, guarantors and lenders, in some instances at least, when there is a default and after a 180-day period and they have been paid off by the government on the loan, then also do the collection on those loans. Is that correct?

Mr. THOMAS. The collection of the ones that have been defaulted?

Senator LEVIN. And for which they have already been paid by the government.

Mr. THOMAS. That is correct, yes.

Senator LEVIN. Now, does that not create a conflict of interest, inherently, when that is done, because then that lender or that guarantor has less of an incentive to collect the loan during the 180-day period, because that person is also in the business of collecting on old loans for which they have been paid off by the government? And I understand that they get something like 30 percent as payment of whatever loans they collect. I do not know if I have stated that clearly enough.

Mr. THOMAS. I think I understand it.

Senator LEVIN. Do you understand what I am saying? Is there any inherent conflict of interest there?

Mr. THOMAS. It could be read that way, even though the one offsetting factor is that if the guarantee agency's default rate gets above this trigger figure that the General Accounting Office testified to earlier today, then the proportionate share that they get reimbursed by the Federal Government goes down and the share of what the guarantee agency has to come up with increases.

Senator LEVIN. Of the share of what?

Mr. THOMAS. Of the default amount. In other words, if there is a $10,000 default and if the default rate of that guarantee agency hits this trigger figure, then the Federal Government only reimburses that guarantee agency by, say, 90 percent, rather than 100 percent.

Senator LEVIN. Is that not the default rate before the 180-day period that I am talking about?

Mr. THOMAS. It is claims paid. I am not sure about——

Senator LEVIN. Let me take you one step further, then.

Mr. THOMAS. Okay.

Senator LEVIN. During that 180-day period, there is an effort to collect that defaulted loan, is that correct?

Mr. THOMAS. Yes, sir.

Senator LEVIN. If the effort fails and the case we are talking about, where the guarantee or the lender also becomes a collection agency after the 180-day period, and the 180 days ends, they are paid off in full by the Federal Government, then on the 181st day. If they collect the loan, they keep 30 percent of what they collect and keep everything that they have been paid by the Federal Government.

Mr. THOMAS. That is correct. That is my understanding.

Senator LEVIN. Does that not create an incentive to wait that extra day to collect?

Mr. THOMAS. It could. It could, certainly.

Senator LEVIN. Well, it seems to me it is pretty clear that it would.

Mr. THOMAS. From what I hear you say, it certainly could, but it seems to me—I am not 100 percent sure about this timing, but it seems to me at the point that it goes into default is the point at which that number begins to add to that trigger figure, but I am not positive of that.

Senator LEVIN. Well, I am afraid that——

Mr. THOMAS. But I understand your point.

Senator LEVIN. There are some heads nodding in the back there that are agreeing with what I see.

Mr. THOMAS. They may know better than I.

Senator LEVIN. Well, I may be wrong but I am afraid the situation is that there is an inherent or built-in conflict, because the same people who were paid off in full, then, after 180 days, are also in the collection business in some cases and they have an incentive to increase the amount of their collection business, like any collection agency, and all they have to do is wait for—you know, make a feeble effort in the first 180 days, get paid off and then make a much stronger effort and then keep 30 percent of what they collect, after the 180 days, which is another part of their business.

I would think we at least ought to look at a prohibition against any person who is in the loan business or in the guarantee business from also being in the collection business after the 180 days or having an interest as a collection agency. I wonder if you could give us a report back as to whether that would not eliminate what seems to be a very inherent conflict of interest.

Mr. THOMAS. Let us take a look at it and we will give you some feedback.

Senator LEVIN. Thank you.

Senator NUNN. Thank you very much, Senator Levin.

Mr. Thomas and your associates, do you have anything else you would like to bring to our attention this morning? We are going to continue to stay in touch with you as we go through these hearings.

Mr. THOMAS. Well, we would be happy to continue to work with you, Senator, and anything we can provide, we would be happy to do so and we will be working with your staff and we will obviously continue to do that.

Senator NUNN. Mr. Strong, do you or Mr. Lane have any other comments?

Mr. STRONG. No, sir.

Mr. LANE. No, sir.

Senator NUNN. We appreciate your help and we will look forward to continue working with you.

We will continue these hearings next week. The Subcommittee will reconvene on Monday, February 26, at 9 a.m., in this same room, SD-342 Dirksen, to receive testimony regarding the proprietary schools. We are examining the American Career Training Corporation of Pompano Beach, Florida.

At that time, the Subcommittee staff will testify about their findings relative to their investigation of this school. The staff will be followed by a panel of former students and employees of the corporation, then we will hear from the school president.

Senator LEVIN. Mr. Chairman, do you plan on having someone from the Department of Education testify?

Senator NUNN. Not next Monday, but we will.

Senator LEVIN. At some point?

Senator NUNN. Right. We also have some requests from associations representing the proprietary schools. We will invite any of those associations to submit statements for the record and we will try to hear from some of them at a later date, depending on the schedule of the hearings and how long these last, but we certainly want the statements because we know there are a lot of hard-working people in private schools that are doing a commendable job and we want to make it clear that they would have every opportunity to be heard. We also hope that these associations will—I know some of them are—will make a lot of effort to strengthen their own procedures of their membership, and any suggestions that these associations have to us about how our accreditation licensing can be improved, we would welcome. [See Exhibit No. 1 on p. 218.]

We would particularly welcome any suggestions that will advise the Federal Government on how we distinguish between the bad apples and the good apples. That would be very helpful, because we know there are a lot of good apples out there. But when you get this kind of losses and this kind of fraud, something has to be done about it.

So, we thank you, Mr. Thomas, for being here and we look forward to continuing to work with you, and we will continue the hearing again next Monday morning.

[Whereupon, at 11:40 a.m., the Subcommittee was recessed, to reconvene on Monday, February 26, 1990, at 9 a.m.]

ABUSES IN FEDERAL STUDENT AID PROGRAMS

MONDAY, FEBRUARY 26, 1990

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Sam Nunn, Chairman of the Subcommittee, presiding.

Present: Senators Nunn and Roth.

Staff Present: Eleanore J. Hill, Chief Counsel; John F. Sopko, Deputy Chief Counsel; Alan Edelman, Counsel; Kim Wherry, Counsel; Harold B. Lippman, Investigator; David B. Buckley, Chief Investigator; Grace T. McPhearson, Investigator; Cynthia Comstock, Staff Assistant; Declan Cashman, Staff Assistant; Mariea Sweeney, Staff Assistant; Daniel F. Rinzel, Minority Chief Counsel; Stephen Levin, Minority Counsel; Carla Martin, Minority Assistant Chief Clerk; Roger Ayer, Detailee (GAO) to the Minority; Kim Corthell (Senator Cohen); Eric Whitaker (Senator Rudman); Ellise Halpern-Barnes (Senator Stevens); Bobby Frankin (Senator Pryor); Scott Williams (Senator Nunn); and Bob Harris, Deputy Staff Director, Full Committee.

OPENING STATEMENT OF SENATOR NUNN

Senator NUNN. The Subcommittee will come to order.

Today, the Permanent Subcommittee on Investigations begins its second day of hearings on allegations of waste, fraud, and abuse in the Federal student aid program. Last week's testimony suggested that, at best, the program is in serious trouble; and, at worst, it may be on the brink of disaster. Representatives of the General Accounting Office reported that while the volume of federally backed student loans has increased by 83 percent in the last 6 years, the default rate for these same loans has skyrocketed by 338 percent. As a result, default costs now account for 36 percent of the total program costs.

In that context, the Subcommittee staff also testified at last week's hearing presenting the results of their initial review of Federal student aid programs. The staff testified that, in their view, they had not found even one part of the program that was operating efficiently or effectively. Their findings cited poor communication, inadequate data, and an overall lack of adequate Government oversight for a Federal program that, as a result, is generating huge windfalls for unscrupulous profiteers at the taxpayers' expense. The staff quoted field personnel who candidly described the program as being "in chaos."

The Inspector General for the Department of Education also testified, underscoring the findings of the staff report by citing case after case of abuse and outright fraud in student loan programs. The inspector general and others have suggested that these problems are particularly acute in the area of proprietary or for-profit trade schools, an area which we will examine further in today's hearing.

The Subcommittee will this morning review the findings of the staff's case study of a proprietary school currently participating in Federal student aid programs. We will receive the staff's testimony on their examination of the American Career Training Corporation which operates both a travel school and a secretarial school in Pompano Beach, Florida. We will also hear from two former students of the travel school, as well as the former financial aid officer for American Career Training Corporation.

Finally, we have asked Mr. Joseph Calareso, president and owner of American Career Training Corporation, to be here this morning to testify and respond to questions from the Subcommittee.

I want to point out, as I believe the staff will recount this morning, that the original intent of the case study was to objectively review the operations of an ongoing proprietary school with a substantial volume of loans under the Federal program. As the staff will report, it was only after the case study was initiated that they began to uncover serious allegations regarding the school's participation in the Federal programs.

Taken together with last week's hearings, those allegations and the testimony I expect we will hear this morning heighten my concern about the continuing vulnerability of these programs to waste, to fraud, and to abuse.

Before we begin this morning, I want to acknowledge that Mr. Calareso, as president of the American Career Training Corporation, has requested through his attorney that this morning's hearing be held in closed or executive session. Under the Subcommittee rules and the Senate Rules, such a decision is within the discretion of the Subcommittee.

I would also point out that, with rare exceptions, in cases involving classified information or danger to the life of a witness, this Subcommittee has as a rule held its hearings in public session. To my knowledge, today's hearing involves neither classified information nor any potential threat to the life or personal safety of a witness. I would, therefore, like the record to reflect that I have fully considered Mr. Calareso's request and, unless some member decides to ask for a vote, it is my intention to decline his request and to proceed to receive this morning's testimony in public session.

Without objection, we will proceed to our first witnesses this morning. I believe they are Mr. Buckley and Ms. McPhearson. You were sworn last week, but I think we ought to take the oath again today.

Do you swear the testimony you give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. **Buckley**. I do.

Ms. **McPhearson**. I do.

Senator NUNN. Okay. We are delighted to have your testimony this morning. I know you worked on this a long time. Why don't you proceed? Take your time, and we will listen.

TESTIMONY OF DAVID B. BUCKLEY, CHIEF INVESTIGATOR, PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, AND GRACE T. McPHEARSON, STAFF INVESTIGATOR [1]

Ms. MCPHEARSON. Mr. Chairman, good morning. We have a lengthy statement today. Mr. Buckley and I will both participate in the presentation.

At the initial stage of its investigation into the issue of abuse in Federal student aid programs, the Subcommittee staff determined it would be beneficial to review the operations of a proprietary school, particularly a school which seemed to be relying heavily on Federal student loan programs. In December 1989, we reviewed Department of Education files and decided upon American Career Training Corporation. Preliminary information disclosed the A.C.T. 1985 student loan volume to be $2,941,000, compared to their 1988 loan volume of $43,971,000. This represents an increase in loan volume of more than $41 million over 3 years; in other words, a 1,395 percent increase.

The corporation does business as the A.C.T. Travel School and the HART School for Professional Secretaries. Files disclosed that the schools operated only in Pompano Beach, Florida, and had no branch campuses. The course work for both schools is a combination of correspondence, which is home study, and in-residence courses.

The school is wholly owned by Joseph and James Calareso, who are president and vice president, respectively. The corporation occupies four buildings in Pompano Beach. These include the central offices, the A.C.T. Travel School, the HART secretarial school, and a research and development office. The corporation's inception date was June 14, 1982. According to the A.C.T. president, the travel school was established and licensed by the State of Florida in January 1983 and enrolled its first student on February 10, 1983. At that time, students paid cash, usually through an interest-free payment plan with the school. On May 7, 1985, the travel school was certified by the Department of Education and determined eligible to participate in the Guaranteed Student Loan Program. On October 20, 1987, the secretarial school was added to the participation agreement with the Department of Education.

Today, the corporation is not only licensed in the State of Florida, but also in 25 other States. As we testified last Tuesday, State licensing requirements vary widely. Some States require that a school be licensed prior to the school conducting any business in that State, to include advertising and sales.

According to Joe Calareso, the school was accredited in 1985 by the National Home Study Council, and I quote, the "only accrediting body that will accredit" combination home study and in-residence courses. Joe Calareso is a National Home Study Council trustee and remains active with the Council. The National Home

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[1] See p. 177 for a staff report.

Study Council verified Calareso's trustee status. In addition, A.C.T. rents motel rooms to students in the residency phase of the course from the Calareso Real Estate partnership. Calareso told us there are "hundreds of proprietary schools that would fit in the A.C.T. parking lot."

In December 1989, we conducted a preliminary visit to the Florida Department of Education licensing offices in Tallahassee. We notified the Department of our intention to review A.C.T. We were given full access to their files on the school. We were informed that the Florida Department of Education planned a January 1990 on-site visit to the school. We were invited by the State to attend as observers.

While in Tallahassee, we also visited with and reviewed the files of the State's Office of Student Financial Assistance, Florida's guarantee agency.

During that visit, we learned that, in addition to Florida, the Massachusetts and Pennsylvania guarantee agencies had recently completed reviews of A.C.T. Moreover, the Higher Education Assistance Foundation, yet another guarantee agency, had conducted program reviews and made substantial findings. Mr. Chairman, the staff submits copies of these reviews for insertion into the record. We found more than we had expected.

Based on our preliminary findings, the Subcommittee Chairman authorized a full investigation of the school in December of 1989.

The Subcommittee has subpoenaed and reviewed A.C.T. records along with the records of 19 guarantee agencies; we have requested certain student records, business records, and general information about former and current employees of A.C.T. We have secured the assistance of auditors to organize relevant materials.

Mr. Chairman, we were not looking for a "worst-case example" when we chose A.C.T. As you heard in testimony last Tuesday, the Inspector General's files were replete with examples of those. Rather, we chose this school for our case study due to its substantial loan volume.

The findings that the staff has made are numerous and, in our opinion, strongly suggest intentional abuse of the guaranteed student loan system. Our findings are as follows:

The corporation experienced a massive increase in school enrollment and revenue after certification to participate in the Guaranteed Student Loan Program. Our investigation disclosed that A.C.T.'s student enrollment has increased dramatically since 1985. Joe Calareso told us that in 1984, prior to its participation in the Guaranteed Student Loan Program, the travel school enrolled approximately 1,000 cash students. Tuition was $1,295 at that time. Today, the tuition is $2,195. Today, over 90 percent of the students enrolled in A.C.T. receive federally backed student loans.

We reviewed the files of the guarantee agencies' portfolios pertaining to loans to A.C.T. students.

For the period 1985 through 1989, 15 guarantee agencies guaranteed 62,368 loans, valued at over $153 million for A.C.T. students. In 1985, 2,048 A.C.T. students received student loans valued at $4.7 million. Both the number and dollar value of loans guaranteed increased dramatically to 18,345 loans, totaling $46 million in 1987. Volume remained at about the same level in 1988.

According to A.C.T.'s financial statements, its inception was on June 14, 1982, and operated on a fiscal year ending May 31st. For the initial year of operation, fiscal year 1983, A.C.T.'s revenue was $21,915. Revenues increased moderately over fiscal year 1984 and fiscal year 1985 to nearly $383,000 and $703,000, respectively. In May of 1985, A.C.T. was certified by the Department of Education to participate in the Guaranteed Student Loan Program. As a result of participation in the GSL program, there was an immediate impact on A.C.T.'s revenues, which increased significantly to $5,481,353 for fiscal year 1986.

During 1986, A.C.T. changed its accounting period from a fiscal year to the calendar year basis. For the 7-month period ending December 31, 1986, during the transition period, revenues increased to $6.2 million, exceeding the prior 12-month period.

Revenues continued to soar over the next 3 years to nearly $17 million in 1987, nearly doubling to $32.5 million in 1988, and reaching $34.5 million in 1989.

During the first 3 years of existence, A.C.T. experienced net operating losses which reached almost $91,000 for the fiscal year 1985. However, this trend was reversed in fiscal year 1986 with the participation in the Guaranteed Student Loan Program. During fiscal year 1986, A.C.T. had a net operating profit of $175,000. For the 7-month period ending December 31, 1986, A.C.T.'s net profit increased to $2.3 million. For 1987 and 1988, A.C.T. continued their profitable trend by having net operating profits of $2.3 million and $3.8 million, respectively. For 1986, A.C.T. again had a substantial net operating profit of $827,000, which decreased from the prior 2 years because of increased expenses without a corresponding increase in revenues.

Review of corporation financial data discloses phenomenal profits for the owners. As we have testified, during the first 3 years of operation, the corporation experienced losses. However, that trend was reversed after the school's participation in the student loan program. Moreover, a review of salaries and benefits to the corporation's officers, the Calaresos, also revealed handsome profits for the owners.

Our analysis of the executive officers' salaries over A.C.T.'s existence shows that as revenues significantly increased with participation in the Federal student loan program in mid-1985, there was a corresponding drastic increase in the executive officers' salaries. The executive officers were Joseph Calareso, president, and James Calareso, vice president. Joseph Calareso's 1985 salary was $129,000, and James Calareso's salary was $89,000. In the following year of 1986, the salaries rose astronomically, with Joseph and James Calareso each receiving $1.1 million. The increases represented approximately 770 percent for Joseph Calareso and 1,160 percent for James Calareso.

During the following 2 years, salaries for each Calareso continued at over a million dollars annually and were approximately $1.23 million and $1.03 million, respectively. During 1989, the salaries decreased to $533,000 for Joseph and $513,000 for James. Over the course of the 4-year period of 1986 through 1989, the total salaries received by Joseph and James Calareso exceeded $7.8 million.

As the only stockholders of the corporation, the Calaresos received other benefits in addition to their salary costs which averaged $1.95 million during 1986 through 1989. Beginning in 1987, the Calaresos received additional income from the corporation through stockholder distributions. They also received $168,000 of funds in 1987 through loans to stockholders. Our analysis of A.C.T.'s accounting records show that these additional benefits were approximately $2 million for 1987 and exceeded $1 million for both 1988 and 1989.

For 1987, the benefits received from the corporation by Joseph and James Calareso in the form of salaries and stockholder distributions were $4.3 million. The benefits received by the Calaresos were $3.1 million for 1988 and $2.3 million for 1989. Including the salaries from 1986, the total benefits realized by the Calaresos from 1986 through 1989 approached $12 million.

A very low percentage of those who enroll and receive student aid ever graduate from the schools. The staff has determined that a very low percentage of those students enrolling in A.C.T. actually graduate. During the preliminary phase of this investigation, we were told that fewer than 20 percent of those enrolled in A.C.T.'s courses actually graduate from the courses offered.

An October 1989 review of A.C.T. by its accrediting agency, the National Home Study Council, estimated that only 18 to 20 percent of the school's students graduate.

Joseph Calareso, in information he provided to the staff, claimed a 30 percent graduation rate in 1987 and a 31 percent graduation rate in 1988.

Our analysis of subpoenaed school records show that for fiscal year 1986 through fiscal year 1989, 47,254 A.C.T. students received Federal student loans, but only 7,679 students completed the program through residential training, or 16 percent.

A.C.T. defaults are likely to increase as loans come due. As indicated in testimony last week, the Department of Education, based on data provided from the 56 guarantee agencies, annually produces a list of default rates of the schools participating in the Guaranteed Student Loan Program. This list, known as the COHORT default list, indicates the school, the number of loans to students entering repayment status for that year, and the percentage of default claims paid by the Department to guarantors.

The Department's latest available data is from 1987. In that year, of the 2,039 A.C.T. students entering repayment status, 23.2 percent were in default. You will recall that in last week's testimony before the Subcommittee, representatives of GAO testified that when a default rate exceeds 20 percent, the school is required to develop a default management plan.

Our investigation revealed that the number of defaults for A.C.T. loans is very likely to substantially increase in the future. Generally, loan periods are for 1 year, following by a 6-month grace period. The 1987 default rate is, therefore, most likely based on 1985 loans, when the total loan volume for the school was only 2,048. As previously stated, the loan volume increased substantially over the next few years. Given the low graduation rate and other factors, it is like that as more loans come due, defaults will substantially increase.

Moreover, in last week's testimony, we cited several examples of obviously erroneous addresses for A.C.T. students in guarantee agency records. In the summer of 1989, PHEAA, the Pennsylvania guarantor which now holds $69.3 million in loans to A.C.T. students, sent a questionnaire to a small random sampling of A.C.T. students having loans guaranteed through PHEAA. Over 50 percent of the questionnaires mailed were returned by the post office either unopened, marked "address unknown," "no forwarding address", or "address does not exist." Other guarantors are reporting similar problems in locating students.

For instance, in August 1989, the Massachusetts guarantee agency attempted to telephone 50 A.C.T. students who held loans that had originated within the preceding 6 months. Only two "students" could be contacted. One of the two said she had never heard of A.C.T. The other 48 telephone numbers either did not exist or were not assigned to the student name indicated in the file. Aside from raising questions of fraud and abuse, this type of clearly inaccurate location data on students suggests it will be extremely difficult to collect on defaulted loans in the future.

Very little of actual profits are reinvested in the school. Our review of A.C.T. financial records disclosed that very little of actual profits are reinvested in the school, making future recoupment of any potential liability in the student loan program difficult. As A.C.T.'s revenues increased significantly over the years, there was also a corresponding increase in both the amounts and types of expenditures. We performed a detailed analysis of A.C.T.'s cash disbursements for the past 3 years to identify large and frequent disbursements. Many of the expenditures were general and administrative, related to the operation of the school. However, there were also expenditures for what appeared to be investments and some questionable items.

We classified expenditures which appeared to be investments as disbursements to money market accounts, trust accounts, and insurance companies for policies on the officers' lives. Examples of these types of disbursements from A.C.T.'s operating accounts are as follows:

On June 21, 1988, a $200,000 payment was made to the Northern Trust Money Market asset account;

On November 3, 1987, through October 31, 1989, there were a total of 12 payments for $132,382 made to the Manufacturer's Hanover Trust Company and recorded in their accounting records as an asset.

In addition to investments as described above, A.C.T. made increased disbursements for rent and real estate expenditures. The Calaresos had diversified their holdings and began leasing building space from their Calareso Real Estate partnership. From November 2, 1988, through December 8, 1989, payments totaling $445,000 were made to Calareso Real Estate partnership from A.C.T.

From our analysis of cash disbursements from 1987 through 1989, there were other expenditures which we determined to be questionable as to either their propriety or large amount without sufficient evidence to the source of payment or nature of the expenditure. Examples are as follows:

For the 3-year period, monthly charges to the travel account and subsequent payments to the American Express Company totaled $537,000.

On July 28, 1988, and again on December 1, 1988, there were payments made to Sun Bank and accounted for as distributions with little description. The first payment for $220,000 was described as "Sun Bank—Closing on M," while the second payment for $308,000 was described as "Sun Bank—Cashier's Check."

On May 31, 1988, there was a $100,000 disbursement accounted for as a distribution. However, there was no payee listed in the cash disbursements journal.

On March 24 and December 21, 1989, there were four payments totaling $84,427 accounted for as entertainment with the payee listed as miscellaneous.

Mr. BUCKLEY. I will pick up the reading now, Senator.

A.C.T. failed to make or substantially delayed required refunds of student loan funds in cases where students had withdrawn or been canceled.

Our review and the program reviews conducted by the guarantee agencies disclosed that the school may have a tremendous refund liability because the school has generally either not made or substantially delayed required refunds to lenders for the tuition of canceled or withdrawn students.

Applicable Federal regulations require that: "A school shall have a fair and equitable refund policy under which the school shall make a refund of unearned tuition * * *"; "A school shall pay each refund that is due within 30 days after the date of the student's withdrawal from the school * * *"; and, "if the student is enrolled in a program of study by correspondence, the student's withdrawal date is normally 60 days after the due date of a required lesson that the student failed to submit in accordance with the schedule of lessons * * *"

The school is required to refund to the lender any amount of unused tuition for students who do not complete the training offered. Mr. Chairman, I submit for the record a copy of an A.C.T. contract, and draw your attention to the reverse side of the form: Refund Policy and Failure to Complete Course.

As confirmed to us by A.C.T. employees, the school's long-standing practice——

Senator NUNN. Excuse me, Mr. Buckley. Do you have these exhibits numbered?

Mr. BUCKLEY. Yes, sir; we do.

Senator NUNN. We have already had two or three that have been referred to. Could you bring us up to date now and let's get the record complete?

Mr. BUCKLEY. Certainly. That would be Exhibit No. 7, a copy of this enrollment agreement contract. [Exhibit No. 7 may be found on p. 223.]

Senator NUNN. Let's give each one of them a number and a title as we go along.

Mr. BUCKLEY. Okay.

Senator NUNN. That is No. 7. Without objection, it will be admitted. Have the first six been requested for admission to the record?

Mr. BUCKLEY. Yes, sir; No. 1 was made on last Tuesday; Nos. 2 through 6 were in this statement.

Senator NUNN. Nos. 2 through 6 today?

Mr. BUCKLEY. Yes.

Senator NUNN. Without objection, those will be part of the record.

[Exhibit Nos. 2–6 may be found in the Subcommittee files.]

Mr. BUCKLEY. As confirmed to us by A.C.T. employees, the school's long-standing practice was not to make refunds within 90 days of the last activity date of the student, as required, but rather to delay review of the file until 1 year after the enrollment date and then to cancel the student, if appropriate. Under the contract, the school had no liability for any refund as of 1 year from the date of enrollment, absent written cancellation by the student.

According to our review of student files as well as testimony you will hear this morning, in numerous cases the school made no refund even though a student did not complete the home study or in-residence portion of the training. This practice is clearly wrong. Even if the school made a proper refund after a year's wait, which we believe it did not in most cases, the school was able to collect interest on the improperly held money.

For example, in the case of Angela Jones, a witness who will testify shortly, the student did not receive all of her correspondence materials on a timely basis and, therefore, was unable to complete the course on time.

As evidenced by this student's file, the student enrolled in September 1987 but completed only 9 of the 20 lessons, sending in the last lesson on February 26, 1988. Therefore, the school, within 90 days of receiving the last lesson, should have sent $1,095 of the $1,695 tuition to the lender as a refund. In this case, the school made no refund whatsoever, leaving the student responsible for the entire $2,625 loan. Moreover, in our initial review of a sample of student files at A.C.T., over 40 percent of the files selected revealed that the refunds had not been made as required.

[The file referred to was marked Exhibit No. 8 and may be found in the Subcommittee files.]

Senator NUNN. When you say as required, now you are talking about as required by what?

Mr. BUCKLEY. The Federal regulations.

Senator NUNN. Federal regulations.

Mr. BUCKLEY. Yes, sir.

Joseph Calareso admitted to the staff that A.C.T. may have a refund liability as high as $9 million. Others familiar with the school's operation have estimated the refund liability may be several times that amount. In addition to the amount of the refund itself, the school's actions caused the Department of Education to continue to pay interest and special allowance on that money to the lenders that the Department would not have had to pay had the refund been properly made. Moreover, the school collected interest on, or otherwise used, that money to its use.

In addition to not making refunds to students who had guaranteed student loans, we also found examples of students who had paid cash for the course but received only partial refunds. In the case of Anne Marrocco, a former student residing in Georgia, Marrocco enrolled in the travel school on October 6, 1987. Marrocco paid the $1,645 tuition in cash, completed one-half of the correspondence program—which is lessons 1 through 10—sending in her last lesson on December 22, 1987. Marrocco wrote to the school notifying the school of her wish to withdraw on January 3, 1988, and the school reimbursed Marrocco $495, which is only the resident tuition portion of the course. No refund was issued for the $600—one-half of the correspondence tuition. It is important to note that the Government—State and Federal—has no way to assist the cash-paying student if the student resides out of State. The Department of Education and the guarantors are only interested in Federal aid recipients, and in this case Florida State reviews only the files of Florida residents.

[Information regarding this student was marked Exhibit No. 9 and may be found in the Subcommittee files.]

As will be further described below, recent program reviews by guarantee agencies and A.C.T.'s accrediting agencies have also uncovered problems in the school's refund policy. In one case, A.C.T., at the direction of the Higher Education Assistance Foundation, HEAF, has reconstructed the student aid files of loans guaranteed by HEAF. To date, A.C.T. has reimbursed to HEAF almost $1 million in refunds on past loans. HEAF is to compute and advise A.C.T. of the amount A.C.T. must render to the Department of Education for the special allowance and interest the Department had to pay on the previously unrefunded amount.

The school has submitted students for Federal student aid who do not have an ability to benefit from the training as required by Federal regulations. Applicable Federal regulations require that to be eligible for a guaranteed student loan in a proprietary school, a student must have a high school diploma, or its equivalent, or have the ability to benefit from the training being offered. Under the regulations, ability to benefit can be shown by: one, administration of a nationally recognized, standardized, or industry-developed test; two, receipt of a GED before the earlier of the student's graduation or the completion of 1 year of the program; or, three, enrollment and successful completion of a remedial program prescribed by the institution.

In the case of A.C.T., our investigation revealed that A.C.T. had procured Federal student loans for students who had no high school diploma and who had not demonstrated an ability to benefit as defined by the regulations.

Mr. Chairman, I offer as Exhibit No. 10 for the record a copy of the school's Personal Qualification and Profile Form. This form is designed to be filled out by the enrollee during the visit by the school's sales representative. Based on the information provided by the student, the commissioned salesman determined if the applicant has the ability to benefit.

Senator NUNN. Without objection, it will be part of the record.

[Exhibit No. 10 may be found on p. 226.]

Mr. BUCKLEY. In Block II of the form, there are questions pertaining to the applicant's education. It was the school's long-standing policy to admit students who did not have a high school diploma or GED as long as the student certified that he or she was in the process of obtaining one.

On the reverse side of this PQP form, you will note a section to be completed by the sales representative, certifying that the applicant has an ability to benefit.

Our check of student files also disclosed that the school had been enrolling students who did not possess high school diplomas or GED certificates. Moreover, the school did not verify the claims of students that they were diploma or certificate holders. Our review of student files at the school disclosed several files for applicants who did not possess either a high school diploma or a GED certificate at the time of enrollment. In some cases, the forms indicated that the students were in the process of completing a GED and their expected completion data was listed only as "ASAP." The Subcommittee will receive testimony later this morning regarding those types of cases.

Further, the school enrolled students based on the sales representative's certification that the student had the ability to benefit from the responses during the sales pitch meeting. According to a former representative of A.C.T. that we have interviewed, no written test has ever been used by the school in making this determination of an ability to benefit, and students without a demonstrated "ability to benefit" were not offered or referred to remedial training.

Mr. Chairman, I submit for the record Exhibit No. 11, a copy of an A.C.T. student file.

[Exhibit No. 11 may be found on p. 226.]

Senator NUNN. Without objection, it will be admitted.

Mr. BUCKLEY. We have deleted the identifying information from this file. This student was enrolled on May 1, 1989, paid $10 cash, and the tuition was paid in full on June 25, 1989, from a guaranteed student loan. This student completed 7 lessons according to the log maintained in the file, and the last one was received on August 29, 1989.

This student did not possess a high school diploma or GED, but the file indicates that she was in the process of completing such. If you look closely, the handwriting in the blocks answering those questions appears different from the other entries on the form.

You will notice as you look through the file that the student repeatedly failed the tests, despite the high grades listed on the school's log in the front of the file. This student was canceled from the program, but there is no indication that a refund was made.

The school's director of education did tell the staff that, although rare, there are some students that the instructors feel are incapable of successfully completing the course work. They are sent home prior to completion of the in-residence portion of the training. The director cited an example of a severely dyslexic person who was dismissed. The director, when asked, said the field representative makes the determination whether a student has the ability to complete the program.

A review of the initial application to the Department of Education for certification of the A.C.T. Travel School disclosed that the application was dated March 11, 1985, and signed by Joseph Calareso.

On the application, Calareso answered the following question in the negative: "Does the institution admit any students without high school diplomas or the recognized equivalent (GED Certificate) for the purpose of obtaining a degree of certificate."

The next question on the application is: "If yes, does the institution determine whether these students have the ability to benefit from the education or training offered?"

And the next question: "If yes, attach a copy of the criteria for determining whether these students have the ability to benefit from the training offered."

The last two questions are unanswered on Calareso's application.

This application was the basis for certification by the Department of Education for A.C.T. to be eligible to participate in the Guaranteed Student Loan Program. Despite that application, our investigation revealed that A.C.T. did, in fact, enroll students who did not possess either a high school diploma or GED Certificate, and that those students received guaranteed student loans.

Today, in light of the criticism recently received from the program review officials, A.C.T. has changed its policy on enrollments. Now, according to Joe Calareso, A.C.T. only accepts students who possess a high school diploma or GED.

The evidence suggests a lack of emphasis at A.C.T. on the training of students. Most energy and emphasis is centered on enrolling students, not graduating them.

As testimony by other witnesses this morning will confirm, our investigation found that the school's emphasis is not centered on the successful completion of the program by students, but is focused instead on procuring new enrollments.

Mr. Chairman, I would like to submit as an exhibit to the record a copy of a memorandum from John Wash. This will be Exhibit No. 12.

[Exhibit No. 12 may be found on p. 228.]

Senator NUNN. Without objection.

Mr. BUCKLEY. John Wash is A.C.T.'s admission representative supervisor. The memorandum is directed to all admission representatives. This memorandum is a compilation of advertising and sales ideas for the sales representatives to use. I would like to draw your attention to just a few items in the memorandum:

"Drive through large housing projects SLOWLY with door sign on. Best times are Friday afternoons and Sunday afternoons."

"Meet the managers of low-income and Government housing apartments. Give group presentation."

"College career days on black campuses."

"Food stamp offices—leave referral cards."

"Welfare offices—leave referral cards."

The Subcommittee staff also contacted students who had withdrawn from A.C.T. We wanted to learn of their experiences. Briefly, these students characterized themselves as misguided persons who had fallen on hard times. They were looking for ways to better their financial, educational, and employment positions and now feel that they became the prey of the proprietary school industry. Salesmen presented a glorified picture of the life that they would lead after attending A.C.T. Additionally, they were told that the Government would back them financially in this "wonderful," life-changing endeavor. These students have experienced an outcome to their story quite different from the one portrayed by the sales representative: They now have substantial student loans to repay, the threat of defaulting on their loan, and no educational benefit to present to society or the labor force. We do not believe these students to be the exceptions.

The staff also contacted a number of A.C.T. graduates to find out about their experiences with the school and to be sure the responses we were getting were from a representative sample of the entire student population. Graduates' opinions of the school varied from one extreme to the other. Some of these students were appropriately employed in the industry for which A.C.T. had trained them. Others said that they were unable to find such jobs. Some graduates said A.C.T. had truthfully portrayed itself; others disagreed.

Our review of the school's actual operations also suggests a lack of emphasis on training and education. The courses offered by the school are combination home study and in-residence. Correspondence lessons are graded and returned to students by telephone receptionists, not instructors. As a former student will testify today, those who call in with questions concerning course work were not counseled by instructors, but told to answer the questions to the best of their ability. For both schools, there are only 23 employees listed as instructors. By contrast, the schools employ approximately 109 commissioned sales representatives.

Moreover, the operations of the student financial aid section are quite sophisticated, with over 70 employees processing scores of new loan applications per day.

The financial aid office is divided into 10 sections, each having a specific duty to perform. A current employee of the school told the staff that, on an average day, up to 100 loan applications are completed and sent to enrollees. Loan counselors receive information from students by telephone, complete the loan forms which are then mailed to the student for signature. Today, students receive applications for both Stafford and Supplemental Loans, already completed by the school employees, to sign and return to the school.

During the staff's visit to the school in January, we were also told about several contests that have been held in the financial aid section. Employees are rewarded with prizes for the highest number of loan applications processed during the contest period.

Receptionists are also rewarded for handling the highest number of telephone calls, and sales representatives participate in ongoing contests for the highest number of students enrolled. No one we spoke to was aware of any contests held among the instructional staff or placement office staff.

Finally, our review of A.C.T. financial records revealed that training and education expenses were dwarfed by advertising and sales costs. Our analysis of corporation expenses during the period 1986 through 1989 revealed that in fiscal year 1986 instructors' salaries were 1.3 percent of revenues and advertising was 7 percent of revenues. For 1988, instructors' salaries increased to only 1.4 percent of revenues. During the same year, advertising increased to $11 million, which was a significant 33.8 percent of revenues. Classroom materials for fiscal year 1986 were .4 percent of revenues and decreased to .3 percent of revenues in 1989. In fiscal year 1986, there was no salary category for admission representatives which totaled $5,935,000, or 17.2 percent of revenues in 1989.

In its October 1989 review of A.C.T., the National Home Study Council found that course materials were "too simplified to expect graduates to be prepared for more than an entry level position," and that "the home study portion of the courses seems to have minimal educational services." In responding to the National Home Study Council finding that only a small percentage of students graduate, Joseph Calareso attributed this to the high cost of the residential program and not to any deficiencies in training. Calareso told the National Home Study Council, "* * * realistically, graduation rates will only improve if students can access additional forms of student assistance, such as a Pell grant or an institutional loan."

Ms. McPHEARSON. Lack of oversight: too little, too late. Our investigation revealed that at every level in the system, there was inadequate oversight of A.C.T.'s participation in Federal student loan programs.

Where there had been oversight, it has come very late in the game, after millions of dollars in federally backed loans have been issued to A.C.T. students.

The Department of Education's review of the school was inadequate.

In January, we visited the U.S. Department of Education Region IV in Atlanta, Georgia, the office having jurisdiction over schools in Florida. We found that Region IV had conducted a program review of A.C.T. in October 1988. We are submitting a copy of that review for the record, Exhibit No. 13.

[Exhibit No. 13 may be found on p. 243.]

Senator NUNN. Without objection, it will be admitted to the record.

Ms. McPHEARSON. As you can see, the Department made only minor findings during that program review. We believe the testimony from a former A.C.T. employee this morning will explain, to some degree, why only a few, relatively minor problems were detected.

In looking at the October 1988 program review conducted by Region IV, the staff again visited regional headquarters in Atlanta to discuss methods of review and findings at A.C.T. Interviews there disclosed that the program review officer, while a seasoned employee with an extensive background in education, had never reviewed a correspondence school and was unfamiliar with the requirements fitting the institution's student financial aid eligibility at the time of the A.C.T. review. Officials noted that at the time of the 1988 review, no one in the institutional review section of the regional office had ever reviewed a correspondence school. The reviewer admitted not knowing how to address the school's default or withdrawal rates, that she did not hand-pick the student files to be reviewed, that she did not interview students or faculty, and that she did not report what she considered inadequacies in the academic environment. Neither did she report her suspicions related to the extremely high increase in enrollment over just a year's time and the extremely high percentage of students receiving Federal student loans. Further, the program review did not disclose serious questions regarding the eligibility of the secretarial school.

Senator NUNN. Did she say why she didn't do any of these things?

Ms. McPHEARSON. Yes, sir. She indicated to us that there was nothing on the forms that she was asked to fill out that addressed any of these issues, specifically on her suspicion related to the high increase in enrollment. It has been brought to our attention that many times reviewers don't go beyond the gloss on the page, that they only fill out what is asked, that they don't go any deeper. And that was basically her response.

Senator NUNN. In other words, there was no exercise of judgment. She was just going down the checklist.

Ms. McPHEARSON. Yes, sir.

Senator NUNN. And the checklist did not have key questions that related to the real abuses here.

Ms. McPHEARSON. In some respects, yes, sir.

At this point, I want to point out that the Department's response to our initial request for the program reviewer's school file underscores some of the criticisms we had heard about miscommunication, poor management, and lack of adequate data within the Department. We requested the Department's regional file on A.C.T. on January 9, 1990. After a week, we called the regional office and were told that the staff there could not locate the file. Finally, on February 12, 1990, the regional office located the file and provided a copy to the Subcommittee, nearly a month after our initial request.

I would also point out that while the Region IV review in 1988 did find some minor irregularities in A.C.T. operations, Joseph Calareso, in responding to subsequent adverse findings by the National Home Study Council, described the Region IV review as "an extremely favorable report."

Oversight from guarantors of loans better, but some are hesitant to take action.

Of the 20 guaranty agencies that we contacted, 15 had guaranteed loans to A.C.T. students. Of those, only four—Florida, Higher Education Assistance Foundation, Philadelphia Higher Education Assistance Authority, and Massachusetts—had accomplished program reviews of the corporation's two schools, one occurring in 1988 and the remainder in 1989.

I will highlight a few of the guaranty agencies findings:

A lack of proper refunds due withdrawn students; inadequate monitoring of enrollment status; ineligible program by correspondence; ability-to-benefit requirements not being met; satisfactory progress policy not enforced and/or is inadequate; lack of needs analysis verification of 30 percent of student loans processed; program changes not approved by appropriate officials; failure to obtain certification statement of prior defaults in Title IV programs; lack of ability to determine enrollment status; out-of-school notification to lenders or guarantors for repayment plan purposes not being practiced; no schedule for submission of lessons; excess proceeds retained without written authorization; improper determination of student cost of attendance budgets; excessive withdrawal rate, above 33 percent; excessive default rate of more than 20 percent; loans not disbursed in multiple installments; use of commissioned salespersons to promote the ability of Title IV loan programs; and misrepresentation of U.S. Department of Education regulations.

Following the 1989 audits by the previously mentioned guarantee agencies, Joseph Calareso told us that he "shut down the financial aid operation for 2 weeks and revamped everything." He says he has since hired two consultants, who are "experts in Title IV programs," one of whom was previously with the National Home Study Council. Calareso said he took this action to get his operation in line with the regulations.

As we pointed out in last week's testimony, certain guarantors are hesitant to "pull the plug" on a school, especially if the school has substantial liabilities to the guarantor. If the guarantor is too harsh with the school, the guarantor may never recoup the money it had identified as owed. It seems there is an incentive to keep the school in operation and permit it to continue to participate in the Federal aid programs so the agency can get its money back.

In the case of A.C.T., despite the adverse findings listed above, only two guaranty agencies have begun what is called "emergency action procedures" to suspend guaranteeing additional loans to A.C.T. students. A.C.T. continues to receive guaranteed student loans through other agencies.

One guaranty agency expressed concern about our investigation, fearing the Subcommittee's inquiry would spur on harsher action against A.C.T. than it would have received were we not involved.

Oversight by the State: A different role.

As we reported in last week's testimony, State licensing boards license and review schools based on their jurisdiction as identified by State law. They do not conduct oversight on the school based on Federal financial aid regulations.

In the case of A.C.T., the Florida guaranty agency notified the State licensing board of the agency's adverse program review findings, and the State launched an independent investigation of the school to determine if the school was operating within the bounds of State law. Today, the school's license is "under review" by the State pending the results of the investigation. The State is, among other things, investigating the courses' length, because the school had increased the clock hours of both courses without the board's approval. Moreover, the school is scheduled to reconstruct loans guaranteed by Florida and to make refunds to the guaranty agency.

Independent non-Federal audit reveals nothing is wrong.

The corporation was audited by the CPA firm Barton and Gordon of Jacksonville, Florida, in June 1988. On January 18, 1989, the firm reported:

"We have performed the audit tests required by the Student Financial Assistance Programs, Audit Guide, issued by the U.S. Department of Education, Office of Inspector General, Office of Audit, dated May 1988 as they relate to the Stafford Loan Program of American Career Training Corporation for the period from July 1, 1986, to June 30, 1988."

"In our opinion, the institution administered the Stafford Loan Program in compliance, in all material respects, with laws and regulations."

Mr. Chairman, David Barton personally conducted this required non-Federal audit. A subsidiary of Mr. Barton's CPA firm, JV and Associates, which is co-located in Jacksonville, is the consulting firm that helped establish the A.C.T. financial aid office. Given that fact, as well as our findings and those of the guaranty agencies, we question the independence and the quality of the audit.

Senator NUNN. Who asked for this audit? Was this audit done for A.C.T. or done for a guaranty agency?

Mr. BUCKLEY. It is a required non-Federal audit, required by the Department of Education regulations.

Senator NUNN. Who has the right to select the auditor?

Mr. BUCKLEY. The school selects and pays the auditor.

Senator NUNN. So it is required by the Department of Education.

Mr. BUCKLEY. Yes, sir.

Senator NUNN. But the school selects and pays the auditor.

Mr. BUCKLEY. That is correct.

Ms. MCPHEARSON. Accrediting body reviews operation every 5 years: "A.C.T. is not the same school today that we visited—in 1984."

The National Home Study Council accredited the A.C.T. Travel School in 1985. A copy of the National Home Study Council chairman's report is offered as an exhibit to the record, No. 14.

[Exhibit No. 14 may be found in the files of the Subcommittee.]

Senator NUNN. Without objection.

Ms. MCPHEARSON. Since the National Home Study Council is a non-Government body, it sets its own rules on reviews and re-accreditation, requiring them only once every 5 years. In a required update, completed in January 1990, of the original accreditation of A.C.T., the Accrediting Commission of the National Home Study Council deferred action on A.C.T.'s application for re-accreditation. A copy of the National Home Study Council chairman's report is also submitted for the record.

Senator NUNN. Without objection.

Mr. BUCKLEY. That will be part of Exhibit No. 14.

Senator NUNN. Okay.

Ms. MCPHEARSON. The Commission decided that A.C.T. needs time to "achieve successful experience with its announced and recently implemented changes and to verify compliance with the stipulations for continuing accreditation," as listed in its January 18, 1990, letter to the school's president, Joseph Calareso. In this same letter, the Commission's executive secretary, William A. Fowler, said that they were "deeply concerned about the continuance [of A.C.T.] as a successful, viable institution operating within the letter and spirit of the [National Home Study Council's Business] Standards."

The Commission's decision to defer A.C.T.'s application for re-accreditation was based on an examination report, the school's response to that report, and other relevant documents and materials. Among the major findings cited in these various sources are:

Seventy percent of those who enroll in A.C.T.'s travel and secretarial courses qualify for Federal aid and begin the course;

Fifty to 55 percent of those enrolling complete the home study portion of the program and about 20 percent come to resident training;

Only 20 percent of those enrolling actually graduate;

A very significant contingent liability, not reflected on A.C.T.'s balance sheet, exists for the school because of its heavy reliance on Federal financial aid. A.C.T. treats guaranteed student loan proceeds as revenue, with no reserves established per National Home Study Council Business Standards. Therefore, the school's financial statement declaration of a $3.4 million profit could instead actually entail an actual loss of a like amount, particularly in view of the low percentage of students completing the programs;

A.C.T.'s financial statements fail to demonstrate that refunds are being made on a timely basis, in accordance with National Home Study Council Business Standards and the U.S. Department of Education rules;

A.C.T.'s tuition structure and fees are not fairly distributed for each portion—that is, home study and resident—of the courses, as recommended per Commission policy. Tuition fee rations presented to the Commission by A.C.T. in its September 1985 Progress Report called for allocating at least 33 percent of the total amount of the resident training component of each combination course. According to the Commission's recent Examining Committee report, only 9 percent of the current tuition fee is allocated for the resident training component. The Commission sees such "front end loading" of tuition as violating the spirit of National Home Study Council Business Standards since it obligates a student for a debt of nearly $2,000 for having completed only 11 or more home study assignments. To be employable, according to the Commission, a student must complete the resident training, and without this training, there is little to show for the debt incurred. The significance of this problem is underscored by the fact that only 20 percent of A.C.T. students actually attend the resident portion of the course.

The Commission Examining Committee report cites numerous instances——

Senator NUNN. Let me back up just a minute. You are saying that they have two parts of this course: one is at home, correspondence; the other is resident, at the school.

Ms. MCPHEARSON. Yes.

Senator NUNN. Now, tell us again the percentage of the costs of the overall course that is allocated to the correspondence courses versus the percentage in-residence.

Ms. MCPHEARSON. Only 9 percent of the current tuition fee is allocated for resident portion, and it should be 33 percent.

Senator NUNN. Should be. Should be by whose standards?

Ms. MCPHEARSON. The National Home Study Council's standards.

Senator NUNN. So the standards of the accrediting agency say that at least 33 percent should be allocated to resident training.

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. And in this school's case, only 9 percent was.

Ms. MCPHEARSON. That is correct.

Senator NUNN. Does that mean 91 percent was attributed to correspondence?

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. Are there just two categories?

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. So 91 percent was for the correspondence course?

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. What length of time does that correspondence course take?

Ms. MCPHEARSON. That is a good question.

Mr. BUCKLEY. No one really knows. It was set at 280 clock hours initially. Now it's up to over 600 clock hours. They keep changing—they have made no changes to their curriculum since 1984, but for some reason the school thinks it takes longer today than it did yesterday to do the course. By regulation, the entire course has got to take at least 6 months for the students to qualify for Federal aid. And they must complete it within 1 year.

Senator NUNN. So the effect of this—you are calling this "front loading the system," so that 91 percent of the total tuition, which is usually Federal loans, goes to pay for the correspondence part of the course.

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. Only 9 percent goes to the residence part of the course. And you say only about 20 percent of these students actually ever get engaged in the residency part of the course.

Ms. MCPHEARSON. That is correct.

Senator NUNN. But you have to have that in order to graduate?

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. How long does the residency part of the course take?

Ms. MCPHEARSON. Three weeks.

Senator NUNN. Three weeks. Okay.

Senator Roth.

Senator ROTH. Mr. Chairman, I have a statement that I will not read but ask that it be inserted into the record.

[The opening statement of Senator Roth follows:]

OPENING STATEMENT OF SENATOR ROTH

Thank you, Mr. Chairman. Federally guaranteed student loan programs are among our nation's most profitable long-term investments. We reap handsome dividends from these programs through the development of our most valuable resource—our young people. These programs enable us to maintain a well-trained, competitive workforce capable of meeting the challenges of today's increasingly competitive world economy and thereby ensuring our nation's economic future. And proprietary schools are an important part of that process. The training which many of these schools provide give many young people legitimate prospects for a brighter future; people for whom that otherwise might not be possible.

But, as we heard last week, major problems exist within the federal student loan programs particularly regarding proprietary schools. These problems lend further support to the conclusion that, when it comes to education, we are a nation at risk. Not only are we risking federal tax dollars (which this year alone might amount to $2 billion in loan defaults) but, more importantly, we are risking our young people's futures and our nation's future.

Today we will hear from young people who took risks in the hope of improving themselves. They relied on people who they thought were educators, dedicated to giving students the tools to build a better future. Instead, what they found, apparently, were people dedicated to bilking the federal treasury and hoodwinking unsuspecting young people.

Rather than allowing these young people to improve themselves, such schools actually leave these students in a worse position than when they started. The deceptive practices we will learn about today result in students paying for education they never received. Lacking proper training and unable to find jobs, these students often default on their federally guaranteed loans and thus suffer the added humiliation of seeing their credit ratings destroyed in the process. Perhaps the ultimate irony is that, many students don't realize they even have a federal loan until they are told they are in default.

Mr. Chairman, I again want to commend you for your leadership in having the Subcommittee revisit this obviously still troubled area. I also want to commend the fine work of your staff—Eleanore Hill, David Buckley and Grace McPhearson—for the outstanding work they have done in exposing these problems.

We must do all we can to ensure that these programs benefit our young people as intended because, in that way, we all benefit. We must make sure that those who attempt to manipulate the system for their personal benefit realize that they, and not the system, are at risk.

Senator ROTH. I am not quite clear exactly what NHSC is. I know it is a non-government body, but how does it become involved in accrediting these schools?

Mr. BUCKLEY. Senator, the National Home Study Council is one of the accrediting bodies recognized by the Secretary of Education to accredit schools that may participate in Federal student aid programs.

Senator ROTH. Exactly what does accreditation mean?

Mr. BUCKLEY. Accrediting bodies generally certify that the education offered is as advertised.

Senator ROTH. It is as advertised?

Mr. BUCKLEY. Is as advertised.

Senator ROTH. Does it also try to evaluate the value of the program or does it only look at whether or not it does what they claim it will in its advertising?

Mr. BUCKLEY. Sort of both. In this case, the travel school advertised that if you complete their full course, including in-residence, you will be qualified for an entry level position in the travel industry. That is what they advertise, so the National Home Study Council would, therefore, accredit it based on the fact that if you complete it you would be capable of entering the travel industry. The travel industry itself is very broad. In this case, it includes Hertz Rent-A-Car receptionist, Motel 6 night clerks, things like that. That is an entry level position in the travel industry.

Senator ROTH. My last question: As far as you can determine, were they the only ones that really looked at the substance of the program?

Mr. BUCKLEY. That is absolutely correct. The State of Florida does not look at the substance, the educational substance of the program; neither does the U.S. Department of Education. The system relies on the accrediting bodies for the quality of the education itself.

Senator NUNN. But you are saying their standards weren't met, the accrediting body's standards were not met?

Mr. BUCKLEY. In 1985, based on a 1984 review, they were met. What we are reading here now is excerpts from their 1989 review that they have just recently completed.

Senator NUNN. How often do they review?

Mr. BUCKLEY. Every 5 years.

Senator NUNN. So you can get a review in 1985 and not get another one until 1990?

Mr. BUCKLEY. Yes, sir.

Senator NUNN. And nobody checks you in the meantime?

Mr. BUCKLEY. Not from an educational quality perspective.

Senator NUNN. So a school can set itself up and get accredited, start receiving Federal loans, and in this case go up to $30 million, $40 million a year in Federal loans; the owners of the school can come away with $2 million or $3 million a year in salaries plus other things that you have detailed here; and nobody at any level is checking the substance of what is being taught from the first year of accrediting to the fifth year?

Mr. BUCKLEY. That is correct.

Senator ROTH. And if I understand what you are saying, when they do investigate, they only determine whether or not they are complying with what they advertise; is that correct?

Mr. BUCKLEY. Yes, Senator.

Senator ROTH. Mr. Chairman, I don't think that is very much protection for our young men and young women.

Mr. BUCKLEY. In fairness, the National Home Study Council did say that should complaints be brought to their attention, the Commission may go in earlier than 5 years. In this case, there were little or no student complaints received by the accrediting body.

Senator ROTH. I didn't intend to be critical of them because I don't know the specifics, but it does seem to me that there is a pretty loose system considering there are millions of Federal dollars at risk and the opportunity for young people to be trained for a meaningful job is at stake.

Senator NUNN. Senator Roth, you didn't hear the first part of this, but one thing that would have caught your eye had you been here at the earliest stages was that the instructors' salaries in 1988 were $468,000, 1.4 percent of the total revenues of the school; the classroom materials were .4 of 1 percent in 1986, .3 in 1989, and the advertising budget was $11 million to get people into the school. The number of people processing student loans is 70. The number of instructors was—23?

Mr. BUCKLEY. That is being generous.

Senator NUNN. So there are three times as many people processing student loans as instructing in the class.

Senator ROTH. It shows the objective and goals of the program very clearly.

Thank you, Mr. Chairman.

Senator NUNN. Thank you.

Ms. MCPHEARSON. The Commission Examining Committee report cites numerous instances where A.C.T. advertising and promotion activities fail to comply with either National Home Study Council Business Standards or National Home Study Council Standards of Accreditation. For example, the training manual used by the school's field representatives contains numerous statements referring to NHSC accreditation and to endorsements that appear to have no factual basis.

Accreditation by a nationally recognized accrediting agency is a requirement for a post-secondary institution to participate in the Guaranteed Student Loan Program by the Department of Education. A.C.T. is accredited by the National Home Study Council which receives large payments from A.C.T. for their accreditation. A.C.T.'s membership fees for the past 3 years were $28,000 for 1987, $32,777 for 1988, and increased to $39,422 for 1989.

The staff has reviewed the files maintained by the National Home Study Council relating to the accreditation of A.C.T. The National Home Study Council officials whom we interviewed maintained that A.C.T., as it exists today, "is not the same institution" it accredited in 1985.

Senator NUNN. Accrediting agencies like the National Home Study Council, is that a profit corporation or is that a non-profit?

Mr. BUCKLEY. I don't know the answer to that, Senator.

Senator NUNN. But they derive their revenues from the people they accredit; is that right?

Mr. BUCKLEY. That is correct. The school also pays for the on-site visitation by a team of educators and administrators, and the school also pays for the costs of having their course work examined by an expert in that area.

Ms. MCPHEARSON. Evidence of erroneous information in initial applications for certifications.

Prior to a post-secondary institution participating in the Guaranteed Student Loan Program, the institution must first be certified by the Department of Education as to its financial responsibility. A.C.T. submitted their application for certification for the travel school to the Department on March 11, 1985, signed by Joseph Calareso.

In addition to the questionable statements regarding ability to benefit previously discussed, a review of that application raises serious questions about its representation of A.C.T.'s financial condition.

Along with the application, Calareso submitted a statement of revenue and retained earnings for the 12-month period ended December 31, 1984, prepared by Pannell, Kerr, and Forster, CPA's, as part of a program review. The statement indicated that A.C.T. had a $152,466 net operating profit before income taxes for 1984. Based on this information, the Department certified A.C.T. as financially responsible, and A.C.T. began participation in the Federal student loan program in May of 1985.

Our review of financial records produced by Calareso pursuant to Subcommittee subpoena disclosed that during 1984, A.C.T. also employed another public accounting firm to prepare monthly statements of revenue and expenses. Pollak, Koross, Reiss & Associates, P.A.'s prepared the statements as part of monthly compilation reports for A.C.T. The aggregate totals for 1984 from the monthly statements reflected A.C.T. as having a $21,468 net operating loss before income taxes for 1984. The discrepancy between the two different net figures for 1984 could not be readily determined through our analysis of the records provided. However, the information provided to the Department by A.C.T. as to their financial responsibility was considerably more favorable in reflecting A.C.T. as a profitable entity.

Department officials advised that if the financial data submitted to the Department in 1985 was false, the Department would have sufficient cause to determine that the certification itself was invalid. If that is the case, any guaranteed student loans made under the authority of that certification would be the ultimate responsibility of the school itself.

Senator NUNN. That means that if this information was false, that all the student loans under this would be invalid?

Ms. MCPHEARSON. That is correct.

Senator NUNN. And it means that the students themselves would not have to pay the loans? Or does it mean that they would have recourse against the school?

Ms. MCPHEARSON. I believe they would have recourse against the school.

Senator NUNN. The students would?

Ms. MCPHEARSON. Yes, sir.

Senator NUNN. But the school doesn't have much in the way of assets; is that right?

Ms. MCPHEARSON. On the books, that is correct.

Senator NUNN. What about the personal liability of the officers? Have you looked into that?

Ms. MCPHEARSON. Yes, sir; we have.

Mr. BUCKLEY. I believe that would have to be either a criminal or a civil case against the owners to recoup that money.

Senator NUNN. Would there be personal liability? Are there any personal guarantees in any of this paperwork?

Mr. BUCKLEY. Yes, sir. In the 1985 certification to the Department, and also in 1987, the HART School was certified as eligible. Mr. Calareso did sign a statement, and it does give the false statement warning that any false statement contained in the application can be punishable by violation of 18 U.S.C. 1001.

Senator NUNN. But as far as the students going after the school itself, there is not that much there, is there?

Mr. BUCKLEY. No, there isn't. And also, the Secretary of Education could determine that the school itself is liable so that the Department could move against the school.

Senator NUNN. The Department could move. It wouldn't have to be the students.

Mr. BUCKLEY. It would not have to be. It depends on what action the Secretary takes. He has got several different options.

Senator NUNN. That is, if the original application was, indeed, proven to be false?

Mr. BUCKLEY. That is correct.

Senator NUNN. You are not saying this morning that it was? You are saying that there are questions raised; is that right?

Mr. BUCKLEY. On two counts, we have major questions regarding the quality of the certification.

Ms. MCPHEARSON. In September 1987, the HART School for Professional Secretaries was certified and determined eligible by the Department of Education to participate in the Guaranteed Student Loan Program. This determination was based solely on an application made by Mr. Joseph Calareso, in which he informed the Department that the course was accredited by the National Home Study Council. In the application, Calareso certified the school's clock hours to be: correspondence, 279 hours; in-residence, 120 hours.

Because the course was reportedly accredited by the National Home Study Council and the clock hours were over 300 total, the program was approved for participation.

In reality, the full course had not been accredited when Calareso made his application to the Department. In fact, the in-residence training site was not approved by the National Home Study Council until January 1989.

Our investigation revealed that while the HART program was in its early stages of operation, officials at A.C.T. may have wrongfully obtained Federal financial aid for those students by misrepresenting that the program was fully accredited to the Department of Education. Correspondence between the school and the National Home Study Council show that the National Home Study Council had accredited only a "pure" correspondence course in June 1987, but did not include and accredit any in-residence program.

The Department of Education has in its files an application for eligibility from A.C.T. which addresses the issue of obtaining Federal financial aid for students under the HART program. Departmental officials explained that the application was accompanied by a letter detailing the number of clock hours for both a "home-study" segment and a "resident" segment of the work. The combination of 279 clock hours for the home study and 120 hours for the resident work would have satisfied the 300 clock hour requirement for aid. There was also accompanying the application a letter dated June 11, 1987, from the National Home Study Council approving the secretarial course.

According to the National Home Study Council, the accrediting body had approved on June 11, 1987, a secretarial course but was not aware of A.C.T.'s plan for a resident portion of the program and, therefore, did not address it in its letter of recognition. The 279 hours for the home study portion alone would not have qualified A.C.T. for Federal student aid. According to the National Home Study Council, no one from the Department of Education has ever contacted National Home Study Council to attempt to verify HART's accreditation.

As a result, A.C.T. did obtain loans for students in the HART program prior to the combination program being accredited and prior to having enough clock hours to meet eligibility requirements for aid.

Mr. Chairman, that concludes our findings. We would be happy to answer any questions you or other members of the Subcommittee may have.

Senator NUNN. As I understand it, in your testimony right at the end, you are saying that there have to be a minimum number of clock hours in order to have a program eligible for student loans?

Ms. MCPHEARSON. Yes, sir; that is correct.

Senator NUNN. What is the number?

Ms. MCPHEARSON. Three hundred hours——

Senator NUNN. Is that by regulation or by law?

Ms. MCPHEARSON. By regulation, I believe. Yes, sir; by regulation.

Senator NUNN. So if a school doesn't require as many as 300 hours, it is not eligible for any loans?

Ms. MCPHEARSON. That is correct.

Senator NUNN. So the incentive here, if nobody is looking at content, is to simply make the courses longer and longer with the same basic curriculum; is that right?

Ms. **McPhearson**. That is correct.

Mr. **Buckley**. And as we testified, the school is trying to get the clock hours increased to over 600, which would make the students eligible for Pell grants.

Senator **Nunn**. With the same basic content in the course?

Mr. **Buckley**. With no change at all to the content of the course.

Senator **Nunn**. Have the requirements of the travel industry gone up that much in the last 10 years?

Mr. **Buckley**. Not that I know of, Senator.

Senator **Nunn**. Let me just ask two or three questions here. How would you characterize the U.S. Department of Education's current capability of monitoring the student aid program based on your survey of these cases?

Mr. **Buckley**. I think it is wholly inadequate.

Senator **Nunn**. Is it because they don't care? Is it because they don't have enough people involved? Is it because of the way they are organized? What is wrong?

Mr. **Buckley**. I think there are a lot of well-meaning and caring people in the Department of Education, Senator. The people we spoke to in the field and in headquarters are all overworked. They say they are not organized properly. Everyone we spoke to, as we testified last week, said that the system is in deep trouble, and they need our help.

Senator **Nunn**. Just in the student loan area, or in other areas, too?

Mr. **Buckley**. Also in the Federal student financial aid program. We haven't looked anywhere else in the Department.

Senator **Nunn**. That is what you are talking about.

Mr. **Buckley**. Yes.

Senator **Nunn**. How many people in the Department of Education work in this area? Do you know?

Mr. **Buckley**. I don't know.

Senator **Nunn**. How many people in Region IV are responsible for the region that you have been looking into?

Mr. **Buckley**. There are approximately 15 people that do program reviews on schools within that region.

Senator **Nunn**. Fifteen people that do reviews?

Mr. **Buckley**. Go out and review schools.

Senator **Nunn**. And how many schools do they have under their jurisdiction?

Mr. **Buckley**. I have got that figure, if I can find it.

Ms. **McPhearson**. It encompasses eight States.

Mr. **Buckley**. I will look that up, Senator, and let you know as soon as I find it.

Senator **Nunn**. All right. Now, what is their job? You have got 15 people reviewing eight states. Is this just in the proprietary schools, or all schools?

Mr. **Buckley**. All schools.

Senator **Nunn**. All schools. This is universities and everything. So you have got 15 people reviewing eight states, all schools, what is their job? I mean, you said the accrediting agencies are the only ones who look at the substance of the program.

What do these 15 people do?

Ms. McPHEARSON. They are to check and see if the schools are abiding by regulations.

Mr. BUCKLEY. Yes, Senator. There are over 1,100 schools located in those eight States, and, as in this case, the program review for the ACT, they are to go out and do a substantive review of the school's student financial aid program for each school that they visit.

Senator NUNN. Does that include substance?

Mr. BUCKLEY. No, no course substance at all, just the administration of the financial aid program.

Senator NUNN. Just the financial aid program. Okay.

Now, you have looked at one school. This is a case study. Tell us how you selected the school.

Did you suspect fraud or abuse when you got into this?

Mr. BUCKLEY. No, not at all. We wanted to look at a proprietary school, one that was not, "in trouble." We wanted to just visit a school and sort of dissect its operations, how it operated, how the lenders and guarantors and the accrediting bodies all worked with that school, and this was our goal. We didn't want to find one that was in trouble.

However, we did want to look at a school that had a heavy financial aid portfolio, and that is why we chose this one. It was just on a computer printout we were looking at the amount of loans that were processed.

Senator NUNN. Do you have any way to know whether this school would be representative, or did you just happen to stumble into one that has some real problems?

Mr. BUCKLEY. Well, it is hard to say. We have only been looking at this program for a couple of months, but the feedback that we are getting is that the proprietary school industry, while it is unfortunate that they are all lumped into one big pot, there are a substantial number of bad apples and bad players in that industry.

Senator NUNN. Who are the victims in this kind of activity?

Mr. BUCKLEY. Well, certainly the students, and certainly the taxpayer, because a large number go into default if they can't be located. It is the students and the taxpayer.

Senator NUNN. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. Let me first of all commend you for the job you have done.

In your investigation, do you know whether or not the Department of Education, in testimony before the appropriate committees has brought this matter to the attention of the oversight committees? In other words, as I understand, in your discussions with some of the members of the Department of Education, they have expressed concern about the inadequacy of their organization and oversight, if I correctly understood you.

Has this been brought to the attention of the oversight committees of the House or Senate?

Mr. BUCKLEY. Yes, Senator, it has, and last year sufficient monies were allocated for more program review officers to be put out in the field. It was 1985 and 1986, I believe, where the regional offices were restructured and they lost a lot of what the Department said was quality personnel through attrition or retirement, and right now they are just gearing back up.

Senator **Roth**. It is my understanding there has, at least in the Senate, been some effort to strengthen the requirements of these programs.

Are you familiar with whether that is accurate or not?

Mr. **Buckley**. We have discussed with the Education Subcommittee of the Labor Committee various legislative proposals that they are making in concert with the Department of Education. I do not know the full scope of what they plan in the Reauthorization Bill, but they are also looking to yourself and Senator Nunn for input in that area following these hearings.

Senator **Roth**. It is also my understanding that the Senate did take certain action last year, but that the House didn't act. I gather that part of the concern is that so we are fearful that if we have stronger or more difficult requirements that we may rule out some of the people that would otherwise be helped by this program.

Is that a legitimate concern from your point of view?

Mr. **Buckley**. Well, I think from the education industry, they have a very high concern that the Congress not just keep everybody lumped in one pile. The Department of Education wants the ability, the legislative capability, to cut out certain industries within education and regulate them separately, so that one reg does not cover a university, a two-year college, a proprietary school, or a vocational education school.

Senator **Roth**. Would you say that these loan activities are causing a serious diversion of Federal funds?

Mr. **Buckley**. I think that the abuse of the program certainly is, yes, sir.

Senator **Roth**. Mr. Chairman, I must confess it bothers me that we have this kind of a program which, essentially, I think we both support because it helps people qualify for meaningful jobs. It appears, however, that there is really no oversight at any level as to what they are learning. It just seems to me to invite fraud and abuse.

Let me ask you this question, has the Inspector General—and I know that they have been very helpful to you in part of this—but have they in their annual reports in any way indicated the scope and dimension of this problem?

Mr. **Buckley**. Yes, Senator, they have, at least in the past three semiannuals, maybe the past four, the student financial aid program has been their top—the first thing when you open the cover. That is the number one thing, so yes, he has been fairly outspoken in this area through his reports.

Senator **Roth**. Well again, I thank both of you for work well done, disappointing, but very helpful.

Senator **Nunn**. I am afraid they are just scratching the surface. Thank you very much. We appreciate you both, the hard work you have done on the staff.

Our next witnesses, we have a panel. We have Andrea Lynn Merritts-West, and Angela M. Jones, former students of the American Career Training Travel School, and we also have Brenda Ann Brandon, a former employee of American Career Training Travel School.

Our next witnesses this morning will sit as a panel, the two students and also the former financial aid administrator.

We are delighted to have all of you here this morning. We thank you for your presence and your cooperation. We swear in all the witnesses before our Subcommittee. That is one of our Subcommittee rules, so if you will all stand and raise your right hand I will give you the oath.

Do you swear the testimony you give before this Subcommittee will the truth, the whole truth and nothing but the truth so help you God?

Ms. WEST. I do.

Ms. JONES. I do.

Ms. BRANDON. I do.

Senator NUNN. We thank all of you for being here, and I believe this morning you can just take your time and present your views as you see it on this matter.

I believe we are going to start this morning with Andrea Lynn Merritts-West. Is that is all right? Andrea, you go ahead and tell us your experience here.

TESTIMONY OF ANDREA LYNN MERRITTS-WEST, FORMER AMERICAN CAREER TRAINING STUDENT [1]

Ms. MERRITTS-WEST. Good morning Mr. Chairman, and members of the Subcommittee. I am pleased to be here this morning to testify regarding my experience as a student at the American Career Training Travel School in Pompano Beach, Florida.

My name is Andrea Lynn Merritts-West, and I am a resident of New Smyrna Beach, Florida. I am 26 years of age and I work as a training specialist with ProSync, a professional training and management consulting firm, a position that I have held since January of 1988.

Until 1987, I worked for Gates-McDonald, a subsidiary of Nationwide Insurance, in the Targeted Job Tax Credit Division in Columbus, Ohio. In June, 1987, I moved to Orlando, Florida, and worked at High Point World Resort, until I was laid off in September, 1987, at the end of the season. In August, 1987, I saw an advertisement in the local newspaper about the ACT Travel School. I called the school's toll-free number and inquired about their courses. The school's local representative, Michael Stewart of Daytona, called me and wanted to visit to tell me about the school, but I declined.

In September of 1987, when I was laid off from High Point, I moved to Melbourne, Florida, and was unemployed. I had no income and fell upon some rough times, living with friends off and on. I applied for unemployment compensation in Melbourne, Florida. While at the unemployment office, I observed a "take-one" display, advertising for the ACT Travel School. I took one of the cards and called the school again.

Shortly thereafter, in November, 1987, Mike Stewart, an ACT representative, called me. I told him that I did not have any income and that I was really having some hard times financially and that I did not think I could afford to take the travel course. I did not want to waste his time, but he insisted on talking with me about the course anyway. He drove from Daytona to Melbourne to speak with me, a distance of approximately 100 miles.

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[1] See p. 203 for Ms. Merritts-West prepared statement.

We met in a friend's apartment. Mentally, I was at the end of my rope. Mike Stewart told me that this school would qualify me for an entry position in the travel industry, starting at approximately $8 an hour, more if I got a job with a major airline. He showed me brochures of beautiful, faraway places, and told me that travel agents visit these places free of charge on familiarization trips. He quickly gained my trust. What he was describing was paradise compared to what I was experiencing at that time. Stewart told me that the school had a very high placement rate for its graduates, and that major travel agencies and airlines visited the school to recruit students. He told me that I could complete the course in under 6 months and be a travel agent.

I was concerned about paying for the course. I told Stewart that I could not afford the tuition. Stewart told me not to worry, saying, "I can get it financed for you." Since I was receiving unemployment checks, I asked if I could set up a cash payment plan. He talked me out of this idea and told me it would be easiest if I financed the tuition through the school. I told him I only had a Penny's credit card, and he said don't worry, it is a guaranteed loan, leaving me with the impression that I was guaranteed to get the loan. I was never told that this was a Federally guaranteed loan. I thought the school was loaning me the money.

On top of the tuition, he told me the school would send me a check for $600 to $800 that I could cash and use. I was sold at that time. I knew I would have to pay the money back, but he told me I wouldn't have to pay anything until 6 months after graduation and after I was gainfully employed.

Mike Stewart then asked me several questions. I filled out a questionnaire about myself. I gave him a photograph of myself that he said would be placed in my file at the school so the recruiters from travel agencies could review my academic file and see whom they were hiring. While I was filling out the questionnaire, he was asking me questions about how much money I had made the year before, and the names of family members and friends. He was filling out another form while he was asking me these questions. He knew that I was unemployed. I told him I had made approximately $12,000 the year before. I gave him $25 for the registration fee.

Since there was no telephone in the apartment that we were in, we walked to a pay telephone outside. Stewart called the school and spoke with someone for several minutes. I assumed that they were talking about my application. In a few minutes he called me over to the phone. I spoke with a woman who asked me if I had paid the $25 to Mike. I told her I had. She did not ask me very many questions, just if I had received any money from my family. I told her I had not. I really did not know why she was asking me these questions. She did not explain that I was giving her information for the loan. She told me that in a few days she would send me some forms and told me to sign the forms in the highlighted areas, and to return the forms to the school.

Mike congratulated me about signing up for the school and left me with the first three lessons to do. I did all the lessons that night. I was struck by how simple these lessons were. I actually read the books, but knew that I could easily just fill out the answer sheets without studying first. I mailed the lessons in to the school for grading.

Within a week of signing up for the course, I received some forms with a couple of highlighted areas that needed my signature. I signed the forms and mailed them back to the school. I did not read the forms and I do not recall ever receiving a copy of those forms back from the school. Further, I do not recall ever receiving a copy of the forms that Mike Stewart and I filled out the day I enrolled.

I received a second set of lessons, lessons 4 through 7, in a few weeks. I completed all four lessons in one week. It took me a little longer to do these lessons, because the student is required to memorize codes that are used in the airline travel industry. Still, I was struck at how easy these lessons were. I mailed the lessons to the school.

I received a check for approximately $2,625 from the school, with instructions to endorse the back of the check and return it to the school. I did so.

Because I was concerned about the ease with which I was completing the work, in December, 1987, I decided to call a travel agency in Melbourne about getting a job and to see if anyone had heard of ACT Travel School. That day I ended up calling four or five travel agents in Melbourne. They had all heard of ACT, but none of them had anything positive to tell me about the school. I was told that ACT takes anybody that walks in off the street, and ACT graduates don't know how to work in an office environment, and all ACT will teach you are the travel codes. I asked them about the starting salary. I was told that I could start, with or without the ACT diploma, at about $4.25 an hour. That is less than what I was making on unemployment. I was disgusted.

I called Mike Stewart. I told him what I had learned by calling travel agents and that the lessons were too easy. He told me that $4.25 per hour is just the starting salary and that maybe it was the area. I then realized that this was just a song-and-dance routine.

I called the school and told them I wanted to drop the course. I told them that I had been receiving their newsletter, which advertised the most recent "success stories" of their graduates, graduates placed as desk clerks at Motel 6. I told them about my conversations with local travel agents. I was told that my tuition was paid in full and that it would not make any sense to cancel. I was told that there was no reimbursement if I canceled. I was told that recruiters were visiting the school. I was told that there was a check for over $600 in the mail to me. It was the week before Christmas, 1987. I needed the money. I hung up the phone.

In January, 1988, I received a check for about $600, along with a letter which advised me to keep the money for my motel expenses for resident training. The school suggested that I open an account at Sunbank. Consequently, I opened a savings account and deposited the check.

Only a few weeks after receiving the check, I decided to drop out. I had nothing to lose. The school's newsletter kept coming, telling me of graduates being placed as motel desk clerks. The lessons were simplistic. When I called the school about a question I had in the text relating to Amtrak, I was told to answer the question, and if I got it wrong they would tell me. I don't even know if they have instructors at the school. I figured that if I just stopped sending in lessons, they would just forget about me.

I didn't do any more lessons. In May 1989, I got a book from the school. I called ACT and told them I had dropped out. They told me I should finish the course. I gave them my new address and phone number, but did not do any more lessons. I forgot about the school.

In October 1989, my mother called me from Ohio. She told me that some lady from a business called UNIPAC had called about a Federal student loan I had. I told my mother I never had a Federal student loan, and I called the lady at UNIPAC. UNIPAC told me that I was about to default on a Federal guaranteed student loan. I asked the lady at UNIPAC what she was talking about. I didn't understand. The lady at UNIPAC asked me if I had gone to ACT. This was the first time I had ever been told that I had received a Government student loan. I was floored.

UNIPAC told me that I owed $2,750, and I told them that I hadn't even completed half the course at ACT. She told me to get in touch with the school and find out what was going on. When I called ACT they told me that the lender had been refunded the portion of the loan that was due me.

I relayed this information to UNIPAC, and I was told that no refund had ever been made. UNIPAC told me to proceed with caution because "something isn't right." UNIPAC told me to call the school and get the check number of the refund and the date it had been mailed. ACT then told me my file was "on alert," which meant they could not find it. The woman at UNIPAC told me if I chose to complete the program at ACT, UNIPAC would defer my loan. I decided to do so. UNIPAC sent me the papers to confirm my school activity, part of which was to be completed by the school. ACT said they would not complete the papers because they don't do deferments.

And let me add that as of a few days ago I contacted UNIPAC to check on my loan and was told I was considered to be in default.

In December of 1989 I decided to call another travel agency in the Daytona area to see if ACT's reputation with the travel industry had gotten any better. I found out the school's reputation had gotten worse. The manager of a chain of travel agencies told me that graduates of ACT had no interview skills and could not deal with the public very well. Regarding ACT's course content, the manager of the agency told me that he could teach me more about the travel industry in just a few weeks than ACT teaches in their whole course.

In the process of trying to clear up all of the problems with my loan, I spoke with at least six different people at ACT. One such person was Debbie. She said that according to ACT, since my loan had been repaid to the lender, if I wished to continue the course work, I would have to pay the school additional money. I could hear a man named John talking to Debbie about how to handle my situation. He told Debbie that I would have to pay for the remaining lessons to be completed, and that, as a base figure, would be about $600, maybe more. Debbie said that I would have to be on the honor system and that payments would be my responsibility. I sent the first money order of $100 made out to ACT on or about January 19, 1990. I am to pay this amount for at least 6 months.

To date, I have completed 13 of 20 lessons. In January, ACT sent me all the remaining lessons I have to complete. I called ACT February 5, 1990, to see if they received the money order, and they had no record of it. Additionally, no one can explain to me why I am paying the additional tuition, since files at ACT today show my files as paid in full, but canceled. Previously, I was told that my enrollment was canceled and refunded to the lender, but on February 5, 1990, Cathy Rini told me that the computer did not show a refund as having been made, but that a refund must have been made, since I was canceled such a long time ago.

While performing my duties as a counselor and a job trainer for low-income and unskilled people, I have come in contact with several people who, like me, have been caught up in deals with schools like this. These people are looking for a magic way out of the gutter, trying to better themselves. They are unsuspecting and are easily manipulated. Schools like this promise the world and give nothing back. Like me, these people end up back in the welfare line, worse off than they were before enrolling in these programs. They go from having no credit rating to a bad credit rating and a big debt to pay.

I, as a summer youth coordinator and counselor, teach the youth about bettering themselves, going on to higher education or vocational schools, or into the military. We teach them that there are several avenues available to them. I tell them that there is no easy way out. I tell them that schools that advertise in the back of magazines, that promise a quick, easy education, are pitfalls to avoid.

Mr. Chairman, the system which allows these schools to thrive at the expense of the students and the American taxpayers must be corrected. Unfortunately, I am a victim of this system, but it is my hope that through these hearings we can prevent what has happened to me from happening to others.

This concludes my prepared remarks. If you should have any questions, I would be happy to respond to them at this time.

Senator NUNN. Thank you very much, Ms. West. We appreciate very much your testimony.

Ms. Jones.

TESTIMONY OF ANGELA M. JONES, FORMER AMERICAN CAREER TRAINING STUDENT [1]

Ms. JONES. Good morning, Mr. Chairman, and members of the Subcommittee. I am pleased to be here this morning to testify regarding my experience as a student at the American Career Training Travel School in Pompano Beach, Florida.

My name is Angela Jones and I am from Swansea, South Carolina. I am 21 years old. In the summer of 1987, I saw an ad in The State, a newspaper based in Columbia, South Carolina, about American Career Training, or ACT. I was interested in being a travel agent or tour guide because I wanted to travel. ACT seemed to be able to give me the things I wanted.

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[1] See p. 208 for Ms. Jones prepared statement.

I got involved with the school shortly thereafter. At first I was really excited about the school, because I thought that when I graduated I could make some good money and maybe move to a bigger town. Things did not work out that way, however, and I got quite aggravated.

I called the toll-free number that was in the advertisement and received a pamphlet highlighting the school. After a couple of telephone conversations, I was told no representative of the school would be visiting me, but that the enrollment materials would be sent. I filled out what is called a PQP, or a Personal Qualification and Profile form, and returned it to the school. A financial aid officer soon contacted me and explained the student loan that I might be able to get. She made it sound as if I was to get the loan from the school, not the bank. I needed a loan to go to the school, so I filled out the paperwork, just as they had asked me to do.

A school representative named John Gillies sent me an enrollment agreement which contained some information about a guaranteed student loan. Gillies told me to fill in the top part of the form pertaining to the school enrollment, but to leave blank the portion about the guaranteed student loan. He said it didn't apply to me. He said I needed to sign the form to show that I knew what to expect from the home study portion of the course and the resident portion of the course and that I had 12 months to complete the work.

I signed and returned the form, leaving the guaranteed student loan portion blank. The next thing I knew, I had received a check for $2,415. I was confused, because while I knew at some point I was going to get a loan, I didn't think I had done anything at that point to obtain a loan. Since I specifically recalled Gillies telling me to disregard the guaranteed student loan portion of the enrollment form, I called the school to ask what the check was for. I was told the check was for tuition, but that it should be disregarded because it would be voided, it would never be deposited. Nevertheless, they told me to sign the check and return it to them. Because I trusted the school's employees, I did as they asked. Now I realize how stupid it was of me to sign and return the check. Unfortunately, that was only my first mistake.

They confused me about the entire financial arrangement, so I kept asking questions about the money. Again, they told me that the check wasn't going to be used. When I asked how, then, would my tuition be paid, they said that the school would send me a statement showing what the tuition payments would be and the amount that I owed. They made it sound as if I would be repaying the school. As I understood things, I was to make payments to the school while working on the home study portion of the course and before I went to Florida for resident training. Every time I called to ask them why I had not received a payment book, they kept putting me off, saying they would send it to me later. I questioned the origin of the check that I had endorsed and returned to the school. I was told that the Bank of Horton was the school's bank. Again, I was told that any letters they sent to me referring to a guaranteed student loan did not apply to me.

At a later time I received a check to pay for my resident training in Florida. I was told to save the money until that time. I questioned where this money was coming from, and a school employee told me that the school was covering these costs and I would repay the money after resident training.

This whole time, I thought I was borrowing the money from the school. I would not have signed for a Government loan, because I could have gone to my bank and gotten a loan on my own. I certainly would not have borrowed as much money.

My troubles with the ACT Travel School were not limited to tuition payment. I was also having trouble getting books and lessons to complete. My first lessons were graded and returned to me along with the next set of books. I completed a second set of lessons and returned those to the school. Those lessons have never been returned to me showing my grades, and I have never received any other books after that. I continually tried to get these grades and books and was told by the school that they are in the mail. They have been telling me that for 6 months. To date, I still have not received any more books, and I did not know my grades until an investigator from the Subcommittee staff showed me a copy of my file.

Nearly 3 weeks prior to June 13, 1988, the date when I was scheduled to attend resident training, I called the school to say that I had not received or completed the last 10 home study lessons. I brought this to their attention, even though I knew I could not complete the lessons before resident training.

At this point I also knew that the 1-year period I had to complete the program was almost up. I was really upset, because it was the school's fault that I did not have the books. My father telephoned the school and we asked to speak to several people, including the president of the school, which never occurred. We were getting nowhere. My father told the school that I shouldn't have to pay the full amount of the loan, because I had only gotten a portion of the lessons. I didn't feel I owed them for the full course. Nevertheless, they say that I had to pay the full amount.

They insisted that the books and lessons had been mailed. There was no point in trying to talk to anyone else. There was nothing left to be said. I had done my best to talk with the school, but that didn't work. I didn't know where else to turn.

The next time I heard from ACT was in October 1988. I got a letter saying that I had been canceled and that I had 3 months grace period before I had to start making payments on my loan. To date, I have made 11 payments of $50 each. I still have 53 more to make. I don't want to make them, but I guess I have to. I understand that I should pay for the instruction I received, but why pay for what I didn't get. They are making almost $3,000 off of me for nothing.

ACT promised a lot of things that it never delivered, all at my expense. It seems like they are out for nothing but the money. They are holding me accountable for their mistakes. This could have ruined my credit rating before I got one. I feel as though I wasted all that time. Instead of being where I am, a cashier at an office supply store, I had hoped to be working in a field that I was really excited about. ACT has gotten me nowhere, but into debt. I wish I had never trusted these people, I would not have had to go through all of this.

Mr. Chairman, this concludes my prepared remarks. If you have any questions, I would be happy to respond to them at this time. Thank you.

Senator NUNN. Thank you very much, Ms. Jones and Ms. West. We will come back with questions for both of you. I think that probably we ought to go ahead and hear from Ms. Brenda Brandon first, and then we will come back for questions.

Ms. Brandon, we thank you for being here.

TESTIMONY OF BRENDA ANN BRANDON, FORMER EMPLOYEE OF AMERICAN CAREER TRAINING SCHOOL [1]

Ms. BRANDON. Good morning Mr. Chairman and members of the Subcommittee. I am pleased to be here this morning to testify and contribute to the Subcommittee's investigation into student loan defaults, particularly those of proprietary schools. For three years I worked at a proprietary school in Florida. I now have a job elsewhere.

My name is Brenda Ann Brandon, formerly known by my maiden name of Brenda Ann Dorman. I am 40 years of age and a life-long resident of Florida. I graduated from Florida State University in 1971 with a Bachelor of Science degree.

My employment history, prior to 1983, was mostly in the secretarial and clerical fields. In the fall of 1983, I learned of the American Career Training Travel School in Pompano Beach, Florida, through an advertisement in a local Florida newspaper. I was looking for a change in my career path, and enrolled in the travel school, paying cash for the tuition. The school, which was fairly new at the time, did not offer Federal student aid, but did offer an interest-free payment plan. I completed the 20 home study lessons in 4 or 5 weeks and attended the 3 week resident portion of the course in January of 1984.

After graduation, I was employed at Ambassador Travel, Incorporated, in Fort Lauderdale, Florida. The office's supervisor was Ms. Ann Calareso, wife of John Calareso. Joseph Calareso and James Calareso are the sons of John Calareso. John, Joseph, and James Calareso own the American Career Training Corporation.

After working at Ambassador Travel, Incorporated, from January through December of 1984, I began working at the American Career Travel School as an instructor for "System 1," one of the computer systems used in the travel industry, which is the system offered by the school. My beginning salary was $300 per week.

American Career Training Corporation does business as the ACT Travel School and the Hart School for Professional Secretaries. When I started work there in 1985, it was known as the American Career Training Travel School. The Hart Secretarial School was added later.

After the school received notification from the United States Department of Education that the school had been approved to participate in the Federal student loan program, Joseph Calareso, the school's president, promoted me from "System 1" instructor to financial aid administrator for the school. In that capacity, from

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[1] See p. 211 for Ms. Brandon's prepared statement.

1985 until I left the school in November of 1988, I hired, supervised and managed the employees of the financial aid department. When I started in the position I was the only school employee involved in the financial aid office. When I left in 1988, I supervised 68 employees.

The Calaresos retained the consulting firm, J.V. Associates of Jacksonville, Florida, to establish the school's student loan and aid programs and to train me on the Federally insured loan program. J.V. Associates employee Carol Clairmont is the person who established the school's program.

When I started working in the school's student aid office, there were approximately 600 loan applications pending. I learned how to administer the loan program on my own by obtaining and studying the Federal Register regulations and guarantee agency program manuals.

Carol Clairmont was of very little help, because she provided little information and sometimes gave me wrong information. To summarize, I knew nothing about the student loan program when I was given the job and the consultant did not do very much to prepare me for the task ahead.

In 1985 I was processing about 50 loan applications per week. In 1988 the financial aid section was processing and sending to lenders approximately 300 applications per week. The school advertises and uses regional sales representatives to reach prospective students. The sales representatives meet with the prospective student in the student's home and present the sales pitch on the school. During this visit the sales representative is supposed to determine the individual's ability to benefit. Federal regulations require that in order to be eligible for a guaranteed student loan the institution must determine that the student is capable of learning the material offered by the school.

To make this determination, the school used a Personal Qualification and Profile form, or PQP, which the school developed. It is designed to be filled out by the prospective student without assistance from the sales representative. The sales representative is then to review the form and determine, based on the information provided, if the person has an ability to benefit.

The PQP form contains a series of questions concerning education, such as: "Are you a high school graduate, or do you have an equivalent certificate? Year, City and State."

"Are you in the process of obtaining your high school diploma or equivalent? If yes, expected completion date."

The student financial aid office at the school received every PQP submitted by the sales representatives. I have seen PQP forms on which the student certified that he or she did not have a high school diploma or equivalent, and that he or she was not in the process of obtaining a diploma or equivalent. As I understand the ability to benefit regulations and the school's policy, a student may not attend the resident portion of the training until he or she has obtained a high school diploma or the equivalent.

While I was at the school I kept a list of students who did not have a diploma or equivalent when enrolled. The list was posted on the wall of my office and I instructed other employees in my section to add to the list the names of any students that enrolled without the diploma or equivalent.

I have taken PQP forms on which the student certified that he or she did not have a high school diploma or equivalent and that he or she was not in the process of obtaining a diploma or equivalent, to Joseph Calareso. Joseph Calareso, after I had explained to him that these students were not eligible to apply for Federally guaranteed student loans, would tell me to change the information on the PQP form to indicate that the student was in the process of obtaining a diploma or equivalent. I refused to alter the records.

I have observed Joseph Calareso change the answers to those questions, "Are you in the process of obtaining your high school diploma or equivalent?" from a "no" response to a "yes," and filling in the answer to, "If yes, expected completion date," as ASAP. Joseph Calareso did this on several occasions in my presence.

Near the end of the PQP form, there is an analysis section, wherein the sales representative certifies by signing that the student has the ability to benefit. On several occasions I handed Joseph Calareso PQP forms that were missing elements of the analysis portion of the form. Joseph Calareso would either certify that the student had the ability to benefit, even though he had never met the student, or he would instruct me to take the form to his brother, Jim, or to one of the regional managers. On such occasions, these people would certify that the student had the ability to benefit, even though they, too, had never met the student.

Over time, and apparently reflecting Joseph Calareso's feeling that this was not an important issue, the PQP forms that were missing the necessary ability to benefit information were routinely referred to the admissions department where the certification was similarly made.

The financial aid office received every student enrollment application. We, the employees of the financial aid office, were instructed by Joseph Calareso to contact every new student, even cash students, and try and get them to finance their education through a guaranteed student loan. This way, the school was guaranteed to receive the full tuition up front. If a cash student is on a payment plan, there is a lower probability that the school will receive all of the tuition, because the majority of the students enrolled never complete the course. With a loan, the school gets all of the money early on.

Regarding the outside reviews of the school by guarantee agencies, the Department of Education, the State of Florida, and independent auditors, there was not one review conducted while I was employed at the school that was based on accurate information. For all the reviews conducted, school employees tampered with the records that were provided to the reviewers. For each review, Joseph Calareso had the school's employees pull the student files, review, alter, and in some cases falsify data prior to providing those files to the reviewer.

I was struck by the lack of real oversight the reviewers actually exercise. Dave Barton of the CPA firm, Barton & Gordon, spent less than 1 day on his independent audit of the school and made no adverse findings. I am not surprised to learn that the consulting firm that set up the school's financial aid program, J.V. Associates, is a subsidiary of the Barton & Gordon firm. I also heard that Dave Barton owns a proprietary school in Alabama, and that Carol Clairmont is now working for a proprietary school.

The program reviewers and auditors never mentioned the fact that the school had a very low graduation or completion rate for its enrollees. No one ever seemed bothered by the fact that well over 90 percent of the students were receiving guaranteed student loans.

Joseph Calareso was not concerned about the school's default rate. He told me that if we could keep the volume of loans high enough and the loans spread out among many lenders and the national guarantee agencies, it would "take them forever to figure it out."

When I told Joseph Calareso that we needed to deal with the lenders and guarantors in the State in which the student was located, he told me he did not care what lenders we dealt with as long as the lender met the following conditions: "We will never do the double disbursements with lenders. Find lenders with a 7-to-10-day turn-around time. We will not use lenders that will not issue the loan checks co-payable to the student and to ACT."

Senator NUNN. What did he mean by double disbursements, Ms. Brandon?

Ms. BRANDON. More than one disbursement, where the actual loan that the student was eligible for would be broken down as they do in a semester system where the student gets so much for each semester each quarter. He wanted all the money in one single disbursement.

Senator NUNN. He wanted the money up front?

Ms. BRANDON. Yes, sir.

Senator NUNN. And he also was insisting that the checks be payable to the student and the school so the school could make sure they got the money?

Ms. BRANDON. Yes, sir.

He also said to use the national guarantee agencies over the state guarantee agencies, because it is harder for the national guarantors to track the default rate at individual schools. Joseph Calareso told me that "if you put all of your eggs, or loans, in one basket, they can control you."

The school used the Florida guarantee agency only for a short period of time. Joseph Calareso told me it was too close to home.

When we would attend industry conventions and other gatherings, one of my duties was to informally poll the other schools represented to determine what lenders and guarantors they were using and how they did business.

When the school received the student loan checks from the lender, the checks were made payable either to the student and the school, or solely to the student. All the checks would be stamped with a restrictive endorsement, "For deposit only, American Career Training Corporation," and then sent to the student for endorsement and return to the school.

Joseph Calareso knew that by placing the school's restrictive endorsement on the checks made payable solely to the student was wrong, but this was the method he used to control the student and to ensure the student would send back the check to the school. The reviewer from Florida Federal, a lender, told Joseph Calareso in

1986 to stop the practice of using the restrictive endorsement on checks addressed payable only to the student. As a result, ACT simply stopped using Florida Federal as one of its primary lenders.

While I was employed at the school, the Calaresos would increase the cost of tuition almost every year. When I started in 1985 the tuition was $1,295, and when I left in 1988 the tuition it was $1,895 per student. I do not know why the tuition was raised and I do not know of any justification for this increase.

Another area that the outside reviewers never seemed to focus on was the matter of the student loan budget. This dollar amount is what ACT calculated the cost of attendance to be for each student. This amount is used in calculating the amount a student is eligible for in the guaranteed student loan program. So, if the budget amount is high enough, more students will be eligible for loans. In addition to other factors, this budget amount was adjusted upward every time the tuition was increased.

After a change in the regulations requiring it, we started verifying a percentage of the loan applications that we received by going to the source of information. Those sources included lenders, other schools, and the IRS. When I would discover a discrepancy between what a student had reported, what a previous school had provided, and what a lender reported regarding the status of a previous loan to the student, Joseph Calareso told me that I was doing too much paperwork and to ignore the discrepancies. These discrepancies in some cases allowed students who had previously defaulted on Federal loans to obtain additional loans. This is the very occurrence which the regulations sought to prevent. ACT, the lenders, and other schools, by not seeking and providing the most current information about a student, facilitated this happening.

Ruth Ann Flemming, the director of training, complained about the quality of students entering the resident portion, because some students—students who had already completed the correspondence portion of the course—could not read or write well enough.

The school also participated in the Supplemental Loans for Students, or SLS program. Even though the interest rate is higher than that for the guaranteed Stafford Student Loans, Joseph Calareso said we have to get the tuition covered, and directed the financial aid employees to fill out and send the SLS forms to students, even in the event the student had told the financial aid employee that he or she did not want an SLS loan.

To accomplish this, two employees were directed as their sole duty to call students and encourage them to take out SLS loans, since the guaranteed student loan would not cover their tuition. By sending the completed forms to the students for signature, we were encouraging students to take out the SLS loan.

To encourage the ACT employees to process large numbers of loan and student applications quickly, the Calaresos instituted a number of competitive award programs within the company. For example, sales representatives earned incentive awards after a contest period for the highest number of students enrolled. Receptionists with the highest number of students contacted by phone were rewarded with time off. Loan counselors in my department were rewarded with cash, color televisions, or other such items for the highest number of loan applications submitted during the contest period. I have always felt a little strange that the instructors never had a contest, or that the placement office never was rewarded if they placed a high number of graduates.

The school's refund policy was confusing and changed often. During the early years, it was Joseph Calareso's policy not to issue refunds unless the student mailed back the uncompleted lessons and notified the school in writing, via certified mail, of the desire to withdraw. The formula for calculating refunds changed often, too. Basically, after a student had been inactive for 1 year after the date of enrollment, we would notify the lender that the student had withdrawn. The date of withdrawal, as reported to the lender, was much later than the date the student had actually become inactive with his or her lessons. The date of withdrawal reported was the end of the 1-year period the student was enrolled. In these cases, we were supposed to refund the resident portion of the training to the lender, but for a considerable period of time we did not do so.

Joseph Calareso often changed the school's refund policy, as indicated on the reverse side of the contract signed by the student. Most of the time, if a student did not notify the school that he or she was withdrawing, the file was not reviewed for the one-year enrollment period, and no refund of the correspondence portion of the course was made to the lender. The school considered it earned income.

When regulations changed to require refunds be made based on a percentage of clock hours of actual student attendance or participation, this further confused the refund policy. But in actual practice, we continued to hold files as active for the one-year period, and then issue refunds based only on the resident portion of the training, not the correspondence portion.

The Hart School for Professional Secretaries was the second program offered by ACT Training Corporation. The secretarial program, also a combination correspondence and resident training school, began in 1987. After the program began, I discovered that the sales representatives were signing up secretarial course students who were also students of ACT Travel School. I conducted a review of all secretarial school enrollees and discovered that many representatives were involved in the practice of dual enrolling students. Of course, this is an improper practice because these students were not eligible to collect two guaranteed student loans at the same time. This practice was not immediately identified since the students were not being processed through the same lenders and there is no computer match done by lenders. This practice involved false statements by the students since they must list any school they attend after high school on the enrollment application, and they had not listed the travel school on the application.

The sales representative was involved in the practice since the representative knew the identity of the students living in his area. I brought this matter to the attention of Joseph Calareso, but his only concern was how soon a travel student could be enrolled, in and obtain student aid for, the secretarial school.

Mr. Chairman, this concludes my prepared remarks. If you should have any questions, I would be happy to respond to them at this time.

Senator **Nunn**. Thank you very much, Ms. Brandon. I have a few questions for you and then I will ask a few other questions, and then we will rotate with Senator Roth. I appreciate you being here. What was the year you went to work with ACT?

Ms. **Brandon**. 1985.

Senator **Nunn**. And when did you leave?

Ms. **Brandon**. November of 1988.

Senator **Nunn**. Did you leave of your own accord, or were you terminated?

Ms. **Brandon**. I left on my own accord.

Senator **Nunn**. Where did you go from that job?

Ms. **Brandon**. I moved back home.

Senator **Nunn**. Did you get another job?

Ms. **Brandon**. I am working now.

Senator **Nunn**. Where are you employed now?

Ms. **Brandon**. At a law firm.

Senator **Nunn**. What was the beginning salary you had at ACT?

Ms. **Brandon**. $300 per week.

Senator **Nunn**. How about your highest salary?

Ms. **Brandon**. When I left it was $670 per week.

Senator **Nunn**. I understand you were a student there before you actually became a financial aid officer; is that right?

Ms. **Brandon**. Yes, sir.

Senator **Nunn**. What kind of instruction did you get? Did you have satisfactory instruction?

Ms. **Brandon**. I walked into the school, I drove over from Sebring to Pompano and I picked up the 20 lessons and paid for them and went home and did all the lessons, and I brought the answer sheets to class when I went to class 4 weeks later, 5 weeks later.

Senator **Nunn**. Did you complete the residency part of the course, too?

Ms. **Brandon**. Yes, I did.

Senator **Nunn**. What kind of instructors did they have there? Were they good instructors?

Ms. **Brandon**. Fair.

Senator **Nunn**. The big problem is the fact that most people never get to the residency part; is that right?

Ms. **Brandon**. Correct.

Senator **Nunn**. Did you talk to the instructors while you were a financial aid officer and get their attitude about what was going on?

Ms. **Brandon**. A little bit. The main objection was the quality of the student that was being enrolled and the reasons why, and how it was making their job difficult when some of the students literally couldn't read or write, some students didn't speak the English language, and there were a lot of complaints in that direction.

Senator **Nunn**. But the instructors were trying to do their job; is that right?

Ms. **Brandon**. Yes, sir, they were.

Senator **Nunn**. What was the yearly dollar loan volume of the school when you left? Do you recall, approximately?

Ms. **Brandon**. I can only tell you how many applications.

Senator **Nunn**. How about that. Tell us the number of applications.

Ms. Brandon. We were receiving anywhere from 200 to 350 student loan checks per week.

Senator Nunn. And what was the usual amount of those checks?

Ms. Brandon. $2,000 to $2,500 per check.

Senator Nunn. So that would be, if it was $2,000 times 200, that would be what? Two thousand times 200. Let's see here. That is $400,000 a week, approximately.

Why did you quit as the student financial aid administrator?

Ms. Brandon. Because my husband was fired and he worked for the school in the admissions department.

Senator Nunn. What was his job?

Ms. Brandon. He was a regional sales manager. He trained the representatives that were hired. I guess he did some hiring when he was on the road. He trained the sales or admissions representatives for various states.

Senator Nunn. Were you aware of the selling techniques that were going on by the school's representatives?

Ms. Brandon. The only selling technique that I saw was a color video, and that was in the last year, I think it was beginning or mid-1988 when they made a color video, and they showed it to everybody in the school. I saw that, but no, I am not aware.

Senator Nunn. What was the pitch with that color video? What were they portraying there?

Ms. Brandon. They showed different places around the world, I guess exotic places, places where the student could travel on familiarization trips. They showed people in travel agencies and behind airline ticket counters.

Senator Nunn. Did you think that was a correct representation of what was really likely to be the future of these people who enroll?

Ms. Brandon. I don't think it was realistic, no.

Senator Nunn. I understand from your testimony that you were instructed to try to convince all students to apply for a Federal loan, even those who wanted to pay cash, is that right?

Ms. Brandon. Yes, sir.

Senator Nunn. And the reason for that is to get all the money up front?

Ms. Brandon. Yes, sir.

Senator Nunn. Were there many students that wanted to pay cash, or did most of them——

Ms. Brandon. Very few.

Senator Nunn. Ms. West, let me ask you this question. You stated that the school's representative showed you brochures of beautiful faraway places, and that you would be able to visit these places free of charge.

Do you believe this was an incentive primarily to get you enrolled in the school?

Ms. West. Yes, I do.

Senator Nunn. Did it work?

Ms. West. Yes, it did.

Senator Nunn. How about you Ms. Jones, did you have anything like that? Did you see any brochures or color slides?

Ms. Jones. No, sir.

Senator Nunn. You just saw the advertisement?

Ms. JONES. I was never visited by anyone. Everything was through the mail.

Senator NUNN. Right. Ms. West, do you believe that what you were shown was an accurate portrayal of what was likely?

Ms. WEST. No, sir. From several different travel agencies I have talked to and several different schools, familiarization trips, you actually do have to pay for, not the amount that a regular person would, but you would still have to pay for those.

Senator NUNN. So you believe you were misled in that respect?

Ms. WEST. Yes.

Senator NUNN. Ms. Brandon, again, Ms. West testified that the school representative told her that ACT had a very high placement rate for its graduates and that major travel agencies and airlines visited the school to recruit students.

Did you ever observe, while you were at the school, major travel agents and airlines recruiting at the school?

Ms. BRANDON. No, sir, I never saw them. The placement education building was about a quarter of a mile away and we were told that they were there. I never saw them myself.

Senator NUNN. So you would not have been in a position to observe whether they were there or not?

Ms. BRANDON. No, sir.

Senator NUNN. Did the ACT school, Ms. Brandon, have a job placement department?

Ms. BRANDON. To my knowledge they did.

Senator NUNN. They did?

Ms. BRANDON. Yes, sir.

Senator NUNN. Did you know any of those people?

Ms. BRANDON. Yes.

Senator NUNN. Did they really work at their job?

Ms. BRANDON. They worked there. I physically saw them there.

Senator NUNN. How many employees did they have, do you know?

Ms. BRANDON. I would say about five.

Senator NUNN. Do you have any idea of what their actual placement record was for those who actually graduated?

Ms. BRANDON. About 10 to 20 percent, I believe.

Senator NUNN. What were they claiming?

Ms. BRANDON. I was told to put 88 to 90 percent on applications to the different agencies for loan processing.

Senator NUNN. So they were claiming 88 to 90 percent placement rate, and to your best knowledge it was somewhere around 10 to 20 percent?

Ms. BRANDON. Yes, sir.

Senator NUNN. Let me ask Ms. West and Ms. Jones both this question. How much do you currently owe on your student loans as a result of your program with this school?

Ms. West, first, do you know how much you owe now?

Ms. WEST. Nobody seems to know the answer to that one. I have contacted UNIPAC. They say one thing. They say $2,625 now. ACT, my file has been on alert now for 6 months. They cannot find my file and they cannot tell me what I owe. All they can say is that they know that they made the refund.

Senator NUNN. Ms. Jones, do you know how much you owe?

Ms. JONES. At the present time I owe $2,125.

Senator NUNN. And you are paying it now? Do you have a job now?

Ms. JONES. Yes, sir.

Senator NUNN. Where do you work?

Ms. JONES. At an office supply store.

Senator NUNN. And Ms. West, how about you now?

Ms. WEST. I am a professional training specialist. I am what they call a travel team. I train low-skilled people all over Georgia and Florida.

Senator NUNN. Is that a Government position?

Ms. WEST. JTPA. It is a service provider.

Senator NUNN. Right. Ms. Brandon, what upsets you the most about what you saw going on while you were at ACT regarding guaranteed student loans?

Ms. BRANDON. Probably the fact that we were governed by the Federal regulations under the Title IV program, and they were clearly stated. I worked very hard to understand them and interpret them, and it seemed that I had no control over following them properly. And I think a lot of the students who did enroll had good intention, and they won't get a chance any other way, other than through a proprietary school, because they don't have the criteria or the eligibility to get into a state school, and this was the perfect opportunity for them and it could have been run properly.

Senator NUNN. You testified that you observed Joseph Calareso alter the information on the PQP form to show that a student had obtained a high school diploma or equivalent when the student in fact had not. Is that correct?

Ms. BRANDON. Yes, it is.

Senator NUNN. Did you observe any other people in high levels in the school basically falsifying information?

Ms. BRANDON. On that particular item, or others?

Senator NUNN. On any other items?

Ms. BRANDON. Yes, sir.

Senator NUNN. Who else did you observe falsifying information?

Ms. BRANDON. Jim Calareso and the regional managers that were in the office when the forms were incomplete.

Senator NUNN. What type information did you observe them falsifying?

Ms. BRANDON. On the back of the PQP at the bottom, the sales representative has to certify that the information that the student completed on the form is accurate and that they show the ability to benefit, and on many occasions when I received those they were unsigned, and I gave them to Joe Calareso for signature.

Senator NUNN. You mentioned that while you were at industry conventions and other professional gatherings, one of your duties was to speak informally to representatives of other schools about their business practices and lenders, guarantors they used.

What did you find out in your conversations with these individuals? Was your school doing things like they were doing them, or was your school sort of an exception?

Ms. BRANDON. I never asked about other school's business practices, simply because I didn't feel comfortable to do that. But there were many discussions about why different schools chose certain lenders and guarantee agencies, and it was basically for the same reason that we spread ours out amongst the lenders and guarantors.

Senator Nunn. Ms. Brandon, Mr. Calareso has responded to an NHSC finding that there was no evidence that refunds weren't being made on a timely basis as follows, this is what he said, quote, "With all due respect to the Committee, ACT would like this opportunity to affirm that it has always been our policy without exception to issue refunds on a timely basis for students who notify us of their intentions to cancel from any of our programs," end quote. Based on your experience, do you agree with that statement?

Ms. Brandon. No, I do not.

Senator Nunn. Would you elaborate on that?

Ms. Brandon. The only refunds that I feel, or that I observed, that were issued in a timely manner were the students who actually wrote in a letter of cancellation and returned unused lesson books.

Senator Nunn. Those are the only ones that were refunded promptly?

Ms. Brandon. Yes.

Senator Nunn. What was the normal refund policy?

Ms. Brandon. According to the school contract?

Senator Nunn. No, I mean, what was actually happening in reality? What actual practice did the school follow in refunds?

Ms. Brandon. Well, that is hard to say.

Senator Nunn. Was it slow, or was it cumbersome? Was it very difficult for students to get refunds?

Ms. Brandon. Well, the ones that did send in a letter, you know, and I knew that they were due within 30 days to the lender, so those were issued on time.

Other refunds were basically students who went through their 1-year enrollment term and didn't finish the training, the correspondence portion, and then did not come to resident training. So we pulled all of those files and I gave them all to Joe. And generally, a resident training portion would be issued if we could get that issued, but there was never really a set policy. If a student would call up and complain a great deal, then that was a problem student and we would go ahead and issue it. But if there was nothing said or done, then we would——

Senator Nunn. So it took a great deal of effort on the part of student?

Ms. Brandon. Yes, it did.

Senator Nunn. Joe Calareso responded to a National Home Study Council criticism of graduation rates by saying, "But realistically, graduation rates will only improve if students can access additional forms of student assistance, such as a Pell grant, or an institutional loan."

What do you say about that response?

Ms. Brandon. I don't relate to that.

Senator Nunn. Did they need more money?

Ms. Brandon. Absolutely not.

Senator Nunn. Is that the problem?

Ms. BRANDON. They needed better quality education and the instructors that were there to help them. And motivation, it was lack of motivation. There wasn't anything to motivate students.

Senator NUNN. Senator Roth?

Senator ROTH. Ms. Brandon, when did you graduate from American Career Training school?

Ms. BRANDON. In January of 1985.

Senator ROTH. And at that time did the school participate in the Federal student loan program?

Ms. BRANDON. I am sorry, it was January of 1984. No, they did not have a student aid program.

Senator ROTH. Now, in 1984 what did the school advertise its tuition to be?

Ms. BRANDON. When I began working there in 1985?

Senator ROTH. No, when you attended the school.

Ms. BRANDON. I believe it was $1,295. I was only charged for resident training and $50 for my books.

Senator ROTH. The advertised rate was $1,295 and you only paid $50?

Ms. BRANDON. Yes, sir.

Senator ROTH. Was that typical of the students, or do you know?

Ms. BRANDON. I don't know.

Senator ROTH. When was the school approved to participate in the Federal student loan program and what was the cost of tuition when the school began participating in the program?

Ms. BRANDON. It was May of 1985, and the tuition was $1,295.

Senator ROTH. Did they start charging the full amount then, do you know?

Ms. BRANDON. I am sorry, I don't understand the question.

Senator ROTH. Did they require the full amount of tuition to be paid by the student at that time?

Ms. BRANDON. Yes.

Senator ROTH. Since you were the financial aid administrator, do you know why the school offered deeply discounted tuition rates prior to being approved for Federal student loans and then started charging the full $1,295 after being approved?

Ms. BRANDON. No, I do not.

Senator ROTH. Now, you testified that all of the outside reviews of the school were based on inaccurate information from records which had been altered at Joseph Calareso's direction.

To your knowledge, did any reviewing official ever discover that these records had been tampered with?

Ms. BRANDON. Not to my knowledge.

Senator ROTH. How many times did ACT's president, Mr. Calareso, direct you to change information on a student's Personal Qualification and Profile form?

Ms. BRANDON. During two different reviews.

Senator ROTH. Did you ever follow his directions and change——

Ms. BRANDON. Yes, sir, I did.

Senator ROTH. Yes, you did. How many times?

Ms. BRANDON. I would say probably on 10 or 12 files.

Senator ROTH. Why was the information changed or added to?

Ms. BRANDON. Because there was a break in the lesson submission schedule. We had to follow the regulations as far as the loan being disbursed and lessons being submitted, and the files did not—the files weren't showing compliance to those regulations, so we had to make them look like they were.

Senator Roth. You said that you were very familiar with the Federal regulations, that you personally studied them.

Let me ask you this. Wouldn't it have been possible for the school to have followed those regulations and stay within the law and still make a very significant sum?

Ms. Brandon. I think so.

Senator Roth. Were the requirements of the law or regulations very stringent, or were they pretty loose as far as the school was concerned?

Ms. Brandon. Well, I think they were more—I think they were vague. When it comes to proprietary schools, the Register is the law for all schools, and you have to really read—you have to read them and you have to read them well to figure out what applies to a proprietary school, and I think that is where a lot of the problems are.

Senator Roth. Did you ever hear the owners of the school discuss the curricula and express interest or concern about whether or not they were giving students an adequate program?

Ms. Brandon. No, I didn't talk to them about education.

Senator Roth. That was without your area of responsibility?

Ms. Brandon. Yes, sir.

Senator Roth. I have no more questions, Mr. Chairman.

Senator Nunn. Do any of you have anything else you would like to say today before the Subcommittee? You have been very helpful and we appreciate very much you being here. Ms. Jones, Ms. Brandon and Ms. West, thank you so much for your testimony.

Our final witness this morning is Mr. Joseph Calareso, the President and co-owner of the American Career Training Corporation Travel School in Pompano Beach, Florida.

Mr. Calareso, we swear all the witnesses before the Subcommittee. Will you please hold up your hand?

Do you swear the testimony you give before this Subcommittee will be the truth, the whole truth, and nothing but the truth so help you God?

Mr. Calareso. I do, Senator.

Senator Nunn. Thank you, sir. Mr. Calareso, would you give us your full name and address, please, sir.

TESTIMONY OF JOSEPH CALARESO, PRESIDENT, AMERICAN CAREER TRAINING SCHOOL

Mr. Calareso. Joseph A. Calareso, 4231 Northwest 101 Drive, Coral Springs, Florida.

Senator Nunn. I understand you are accompanied here today by your attorney; is that correct?

Mr. Propper. That is correct, Senator. My name is Eugene Propper. I represent Mr. Calareso today. I am here today on behalf of Mr. Calareso, in the absence of John Grabow, who is out of the country. As we have told the Subcommittee, and as Ms. Hill knows, Mr. Grabow had a prior commitment which he had prior to the time the subpoena was issued. We could not find an available date that both the Subcommittee and I could do, although we tried to do it.

I might add one other point if I may, Senator. After the February 20th hearing at which you presided, and after subsequent events, we have spoken to the Subcommittee, Mr. Grabow and I, on a number of occasions. We have advised the Subcommittee, both orally and in writing, that in light of the allegations that have been made, and in light of the fact that this was to be a day just involving ACT, that Mr. Calareso was not going to testify today and was going to assert his constitutional privilege not to do so.

We have never, to my knowledge, asked that the hearings be closed. We simply asked that Mr. Calareso's testimony, when we advised the Subcommittee that he would not be testifying, be taken in closed session because we did not see a legitimate legislative purpose for doing anything but embarrass the witness.

Senator NUNN. Let me just read a paragraph from a letter dated February 22d, second page, top paragraph, signed by Mr. John Grabow, "I also request that if you insist that Mr. Calareso testify at the February 26 hearing, that the entire hearing be held in closed session."

Mr. PROPPER. Yes, but when we found out you would not do that, we asked that simply his testimony be held in closed session.

Senator NUNN. Okay. Well, all I said was that you had asked that the hearing be closed, and that is what the letter says.

Mr. PROPPER. And I would reiterate that today, Senator. He is here, he will not be answering questions, pursuant to the advice of counsel, and we would ask that for that purpose the hearing be closed.

Senator NUNN. Our Subcommittee has for a long time required that the witness, himself or herself, assert the privilege. We have found over a period of time that assertions by lawyers in a letter are not always—most of the time they are—but not always what the witness, himself, or herself, desires. So we have in most cases required the witness to assert their privilege in person, which is, of course, their right under the Constitution and laws.

So we understand counsel's position and we understand also why Mr. Grabow could not be here, and we wish that we could have rescheduled, but we just were not able to do that consistent with the overall Subcommittee schedule and the Senate schedule.

Mr. Calareso, I am going to ask you a few questions.

Are you president of the American Career Training Corporation of Pompano Beach, Florida?

Mr. CALARESO. Yes, sir, I am.

Senator NUNN. How long have you held that position?

Mr. CALARESO. Senator, on the advice of counsel, I respectfully decline to answer the question and I assert the rights guaranteed me by the 5th amendment.

Senator NUNN. Mr. Calareso, what is your educational and employment background?

Mr. CALARESO. I am a graduate of Bowdoin College.

Senator NUNN. Bowdoin College?

Mr. CALARESO. In Brunswick, Maine.

Senator NUNN. And what year did you graduate?

Mr. CALARESO. 1970.

Senator NUNN. What was your degree in?

Mr. CALARESO. Economics.

Senator NUNN. What background do you have in the travel industry?

Mr. CALARESO. Senator, on the advice of counsel, I respectfully decline to answer the question and I assert the rights guaranteed me by the 5th amendment.

Senator NUNN. Mr. Calareso, what are the other officers of the corporation? Could you give us the names of the other officers? You are president.

Mr. CALARESO. My brother James Calareso is vice president.

Senator NUNN. Any other officers? Do you have a secretary-treasurer?

Mr. CALARESO. I believe, Senator, either it would be myself or my brother.

Senator NUNN. Is the corporation privately held?

Mr. CALARESO. Senator, on the advice of counsel I respectfully decline to answer the question.

Senator NUNN. Mr. Calareso, I don't know whether you have been here. Have you been here this morning to listen to the testimony?

Mr. PROPPER. No, Senator, he was out in the hall.

Senator NUNN. I was going to ask you if you wanted to comment on any of the testimony that had been heard, any allegations against your company.

Mr. PROPPER. He does not see fit to comment this morning, Senator.

Senator NUNN. All right, let's let the witness answer.

Mr. CALARESO. I have no comment now, Senator.

Senator NUNN. Mr. Calareso, we have heard testimony this morning that ACT submitted students for Federal student loans who did not have high school diplomas or a GED certificate, is that correct?

Mr. CALARESO. Senator, on the advice of counsel I respectfully decline to answer the question.

Senator NUNN. Mr. Calareso, did you ever instruct anyone in your employ to alter school records that the students had filled out?

Mr. CALARESO. Senator, on the advice of counsel I respectfully decline to answer the question.

Senator NUNN. Did you ever yourself alter any of the records?

Mr. CALARESO. Senator, on the advice of counsel I respectfully decline to answer the question.

Senator NUNN. Mr. Calareso, I think you have established your intention in this. Let me ask you one final question.

Is it your intention to exercise your 5th amendment right under the Constitution to not incriminate yourself by declining to answer these questions relating to your school and school activities before this Subcommittee today?

Mr. CALARESO. Yes, Mr. Chairman.

Senator NUNN. Mr. Calareso, we regret that you are not going to be testifying because we have important legislative concerns here, important management concerns, but we recognize your right to invoke the protections of the 5th amendment and decline to testify.

In light of your decision to exercise that right, I shall excuse you now with no further questions.

Mr. **Calareso**. Thank you, Senator.

Mr. **Propper**. Thank you, Senator.

Senator **Nunn**. I want to thank the witnesses for being here today. We will continue these hearings in this overall area at some point subject to notice from the Chair.

We have Exhibits 15 through 33 which, without objection, will be made part of the record.

[See Exhibit Nos. 15-33 starting on p. 247.]

Senator **Nunn**. The Subcommittee will now adjourn. Thank you very much.

[Whereupon, at 11:30 a.m., the Subcommittee adjourned subject to the call of the Chair.]

APPENDIX

United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
9:00 a.m. EST
Tuesday
February 20, 1990

THE STAFFORD STUDENT LOAN PROGRAM

Statement of Franklin Frazier
Director, Education and Employment Issues
Human Resources Division
United States General Accounting Office

Before the
Subcommittee on Permanent Investigations
Committee on Governmental Affairs
United States Senate

GAO/T-HRD-90-13

GAO Form 160 (12/87)

SUMMARY OF GAO TESTIMONY
BY MR. FRANKLIN FRAZIER
ON THE
THE STAFFORD STUDENT LOAN PROGRAM

The Stafford Loan Program (formerly called the Guaranteed Student Loan Program) makes three kinds of student loans: Stafford Loans, Supplemental Loans for Student (SLS), and Parents Loans for Undergraduate Students (PLUS). Stafford loans are low interest (currently 8 percent) loans that are made on the basis of financial need; the federal government pays interest on the loan while students are in school; and students generally begin repayment within 6 months after leaving school. SLS and PLUS loans are not based on financial need; interest rates vary annually (currently 12 percent); both can provide assistance up to $20,000; and repayment of principal and interest generally begin 60 days after the loan is made.

In 1989 the Stafford Loan Program made over 4 million loans in the amount about $12 billion. The Program accounts for about 54 percent of student aid provided by the Department of Education. Both public and private postsecondary schools participate in the program. Each loan is insured by one of the 55 state or nonprofit guaranty agencies. Guaranty agencies can collect an insurance premium of up to 3 percent for each loan; they reimburse lenders for 100 percent of defaulted claims; and they serve as lenders of last resort. The Department of Education administers the Program; reinsures the guaranty agencies for 100 percent of defaulted loans, except in those cases where the agencies default rate exceeds 5 percent; and makes interest payments to lenders for Stafford loan borrowers while they are in school.

GROWTH IN LOANS, DEFAULTS, AND PROGRAM COSTS

Between 1983 and 1989 program loans have grown from about $7 billion to over $12 billion annually--an 83 percent increase. Similarly, the number of loans increased 56 percent from 3 million to 4.7 million. During the same period defaults increased over 338 percent from $444 million to about $1.9 billion. In terms of program costs, defaults increased from 10 percent in 1983 to about 36 percent in 1989. Loans to students attending proprietary schools have risen from 17 percent in 1983 to about 34 percent.

In 1989 we reported that proprietary school borrowers accounted for 22 percent of all loans, but 44 percent of the defaults. Studies by Education in 1986 and 1987 also indicate that the default rate at proprietary schools is significantly higher than for other kinds of schools that participate in the Stafford program.

STUDIES BY GAO

Attached to my statement is a list of our studies on student financial aid programs. These studies contain several recommendations that could improve the program and reduce the default rate. Some of our recommendations have been adopted by the Congress and the Department, e.g., actions have been taken to standardize schools' policies on refunding tuition and fees, and to delay loan disbursements to schools and students until 30 days after enrollment and an indication of satisfactory completion. However, our recommendations regarding risk sharing by lenders and guaranty agencies have not been adopted.

ACTIONS BY THE CONGRESS AND DEPARTMENT TO REDUCE LOAN DEFAULTS

Loan consolidation and the denial of loans to schools with default rates over 30 percent are two recent actions taken by the Congress that could reduce the default rate. The Department has recently published regulations that address the default problem. For example, requiring schools with default rate over 20 percent to establish a default management plan is a major initiative of the department.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Stafford Student Loan Program. This program is of extreme importance to students seeking a postsecondary education and to the future workforce of our nation. However, in recent years it has been the subject of greater scrutiny and much of that has focused on those student-borrowers who have defaulted on their loans.

I will focus my comments today on (1) how the Stafford program works, (2) the growth in loans guaranteed and defaulted, and (3) past GAO recommendations, and recent legislative and regulatory changes.

MAJOR FINANCIAL AID PROGRAMS

The Department of Education offers seven major student financial aid programs. These programs were established by title IV of the Higher Education Act, as amended, and include Pell grants, supplemental educational opportunity grants, college work study, Perkins loans, Stafford loans, Parent Loans for Undergraduate Students (PLUS), and Supplemental Loans for Students (SLS). For fiscal year 1989, the Department estimates that the seven programs made almost $18 billion of student aid available through over 9.8 million awards. (See table 1.)

Table 1: Aid Available and Number of Awards for the Seven Major Financial Aid Programs (Fiscal Year 1989)

Aid program	Aid available (in millions)	Number of awards (in thousands)
Pell grants	$4,863.0	3,302
Supplemental grants	442.4	633
Work study	780.3	835
Perkins loans	884.0	826
Stafford	8,431.0	3,324
PLUS	689.0	218
SLS	1,817.0	676
Totals	$17,906.7	9,814

The Stafford Student Loan Program, formerly called the Guaranteed Student Loan Program, consists of Stafford, PLUS, and SLS loans. These three kinds of loans represented 60 percent of federal student aid made available in fiscal year 1989. These loans are guaranteed by the federal government against borrowers' death, disability, bankruptcy, and default. Banks, credit unions, and savings and loan associations are the primary providers of student loans.

The three types of loans differ somewhat in their terms and conditions and I would like to highlight some of these differences.

Stafford Loans

These loans--formerly called guaranteed student loans--are the largest of the three loan types (77 percent of aid available in 1989) and have been available since the program was created as part of the Higher Education Act of 1965. The loans are based on the student-borrower's financial needs which means that all borrowers must show financial need regardless of their income to qualify. Other key facts are:

--Interest rates for new borrowers are 8 percent for the first 4 years of repayment then 10 percent after that.

--Maximum loans limits are $17,250 for undergraduates and $54,750 for graduate students.

--Borrowers generally have a 6-month grace period after leaving school before repayment begins.

PLUS Loans

These loans enable parents to borrow funds for each dependent student (those who are not generally responsible for their own financial support) enrolled at a school. These loans basically started in 1981 and are not needs-based. Other key facts are:

--Interest rates are variable and are determined once a year with a ceiling of 12 percent, which is the current rate.

--Maximum loan limits for each dependent are $4,000 per year to a total of $20,000.

--There is normally no grace period and repayment must generally begin within 60 days after disbursement.

SLS Loans

These loans are available to independent undergraduates (those students generally responsible for their financial support) and graduate students. These loans basically started in 1982[1] and like PLUS loans are not needs-based. Also like PLUS loans, SLS loans generally have the same interest rate, borrowing limits, and no grace period. However, some of the provisions for SLS loans were recently changed in legislation and I will discuss those changes later in my statement.

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[1] SLS loans were part of the Auxiliary Loans to Assist Students program prior to 1986 and had terms and conditions similar to SLS loans, and both are reported by the Department as SLS loans.

HOW THE STAFFORD STUDENT LOAN PROGRAM OPERATES

The program involves five parties including students, schools, lenders, guaranty agencies, and the Department of Education. I would like to provide some information on each party.

The Student

The student initiates the loan process. The student provides eligibility information to the school, applies to a lender for the loan after eligibility is determined, arranges for repayment with the lender, and repays the loan. Stafford loan borrowers receive a federal subsidy throughout the period of their loans including a low interest rate and make no interest payments on the loan while they attend school. When the student completes or otherwise leaves school, he or she is to start repayment. Between fiscal year 1983 and 1989, the number of Stafford program loans guaranteed each year increased from about 3 million to almost 4.7 million.

The School

The schools verify students' eligibility and the amount of financial aid needed. There are about 8,000 schools participating in the Stafford program. The kinds of schools participating in the program are categorized by: 2-year public, 2-year private, 4-year public, 4-year private, and proprietary (for profit trade and vocational) schools.

The Lender

Lenders make loans and under the programs' guaranty provisions, must exercise proper care in making, servicing, and collecting them, and follow the applicable program requirements. Lenders bill the Department each quarter for the federal interest subsidy payment for the loans they hold. These payments include the students' interest while they are in school. Also, during the life of the loan, the lender receives a special allowance payment that is intended to provide it with a near-market rate of return. They file default claims with the guaranty agency, but cannot be reimbursed for their claims until borrowers have been at least 180 days delinquent.

There are about 13,000 lenders participating in the program. As of September 30, 1988, they held about $45.1 billion in outstanding loans. Approximately $89 billion in guaranteed student loan commitments were made since the program began in 1965. Most of the loans are held by few lenders. For example, 25 lenders had 52 percent of the $45.1 billion outstanding, and one organization--the federally chartered Student Loan Marketing Association--had 25 percent ($11.3 billion) of the total. (See table 2.)

Table 2: Ten Largest Holders in the Stafford Loan Program (as of September 30, 1988)
(Dollars in millions)

Loan holder	Amount outstanding
Student Loan Marketing Association	$11,317.6
Citibank (New York)	1,891.5
California Student Loan Finance Corp.	1,314.0
Chase Manhattan Bank (New York)	967.4
Nebraska Higher Education Loan Program	837.0
Chemical Bank (New York)	729.7
New England Education Loan Mktg. Corp.	587.7
Florida Federal Savings Bank	574.0
Marine Midland Bank (New York)	506.1
Manufacturers Hanover Trust Company	424.3

The Guaranty Agency

The guaranty agencies carry out several tasks, including: (1) issuing guarantees on qualifying loans so that when a borrower fails to repay his or her loan due to death, disability, bankruptcy, or default, the lenders can be reimbursed for their claims; (2) charging students an insurance premium of up to 3 percent of the loan; (3) verifying that lenders properly service and attempt to collect loans before the agency pays default claims; and (4) remitting to the Department its portion of monies the agencies' subsequently collect from defaulted borrowers.

If lenders choose not to make loans to eligible students--especially those attending schools with high default rates--the guaranty agency must find another lender or become the "lender of last resort" itself. There are 55 guaranty agencies--state agencies or private nonprofit organizations--that administer the program in the 50 states, District of Columbia, the Pacific Islands, Puerto Rico, and the Virgin Islands.

The Department of Education

The Department of Education is responsible for administering the Stafford program and for overseeing the activities of the various participants. It pays lenders interest subsidies, and reimburses guaranty agencies for up to 100 percent of lenders' claims. To partially offset program costs, the Department charges borrowers a 5 percent origination fee and receives payments from the guaranty agencies on collections from reinsured defaulted loans.

STAFFORD PROGRAM PERSPECTIVE

Now I would like to provide a perspective on the Stafford program in terms of loan growth, defaults, and program costs. The Department provided us with the information we used to calculate loan growth, defaults, and program costs. The data cited for fiscal year 1989 are estimates from the Department.

Loan Growth

The Stafford program has grown during the 1980s, especially since 1983. The amount of new loans guaranteed[2] through fiscal year 1989 for the entire program increased 83 percent since 1983. Because PLUS and SLS loans were basically just starting during this period, their growth rates--391 percent and 1,893 percent, respectively--are expected to be high. (See table 3.)

Table 3: Loan Volume Has Substantially Increased Since Fiscal Year 1983
(Dollars in millions)

	Loans guaranteed		
Type of loan	Fiscal year 1983	Fiscal year 1989	Percent increase
Stafford	$6,537	$9,581	47
PLUS	151	741	391
SLS	106	2,113	1,893
Total program	$6,794	$12,435	83

Default Growth

Defaults have risen dramatically. Overall, defaults for the total program increased 338 percent in the last 6 years. Stafford loans defaults went up 266 percent from fiscal year 1983 through fiscal year 1989, while PLUS and SLS loan increases were 6,525 percent and 111,221 percent, respectively. (See table 4.)

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[2] Loans guaranteed represent commitments made to lenders by guaranty agencies. However, actual loan disbursements would be less in those instances where students decide not to enroll in school and the loan was cancelled.

Table 4: Defaults Have Dramatically Increased Since Fiscal Year 1983
(Dollars in thousands)

Type of loan	Default payments to lenders Fiscal year 1983	 Fiscal year 1989	Percent increase
Stafford	$444,022	$1,623,000	266
PLUS	483	32,000	a
SLS	265	295,000	a
Total program	$444,770	$1,950,000	338

[a] Default rates for PLUS and SLS loans increased 6,525 percent and 111,221 percent, respectively, over the 6-year period. However, these loans were relatively new and the eligibility for SLS loans had been liberalized within the last 3 years. But by all indications, default rates are rising rapidly for those two types of loans.

Although both loan volume and loan defaults have increased dramatically over the last 6 years, the increase in defaults has far exceeded the increase in loan volume. For example, as I pointed out earlier, total loans increased 83 percent from fiscal year 1983 through 1989, while defaults increased 338 percent--four times faster than loan volume. Also, for all three kinds of loans, defaults substantially exceeded loan growth during the last 6 years. (See table 5.) The Department attributes a large portion of these default increases to the four-fold increase in Stafford loans from 1977 to 1983.

Table 5: Increases in Defaults Greatly Exceeded Increases in Loan Volume Since Fiscal Year 1983

Type of loan	Loan increase	Default increase	Times exceeded
	(Percentages)		
Stafford	47	266	5.7
PLUS	391	6,525	16.7
SLS	1,893	111,221	58.8
Total program	83	338	4.1

Program Costs

As a portion of total program costs[3], defaults have risen from about 10 percent in fiscal year 1980 to 36 percent in 1989. Interest subsidies have decreased as a portion of total costs to where they were about 60 percent of the program's costs in 1989. Other costs, including the Department's expenses for other claims, such as death and disability, have leveled off to 4 percent of program costs in 1989. (See figure 1.)

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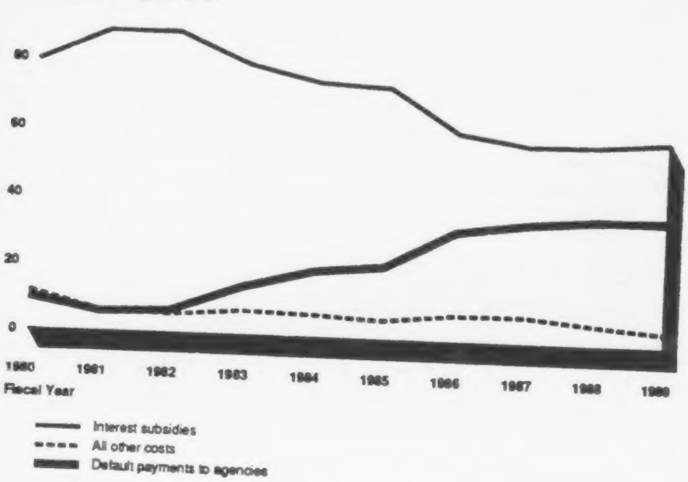
[3] The default costs represent claim payment amounts to guaranty agencies.

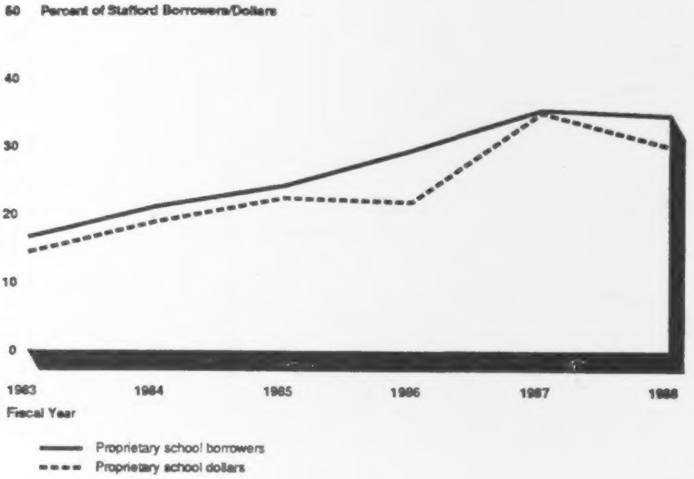
Figure 1: Defaults Are Becoming A Greater Portion of Program Costs



CONCERNS WITH PROPRIETARY SCHOOLS

Students from proprietary schools are receiving an increasing share of Stafford loans. The Department reported that in fiscal year 1983, proprietary school borrowers comprised 17 percent of all borrowers and received 14 percent of the loan dollars. However, 5 years later, 34 percent of such borrowers received 30 percent of Stafford loans--double the 1983 share, although these figures declined somewhat in 1988. (See figure 2.)

Figure 2: Proprietary School Borrowers Are Receiving An Increasing Share of Stafford Loans



The default rate for proprietary school borrowers is greater than the rate for borrowers from other schools. In July 1989 we reported[4] that while proprietary school borrowers comprised about 22 percent of borrowers who received their last loan in 1983, they accounted for 44 percent of defaults as of September 30, 1987. Over that 4-year period, student default rates for the five kinds of schools ranged from 10 percent for 4-year public and private schools, to 39 percent for proprietary schools. The Department of Education reported similar results in two recent studies of school default rates. Both studies determined which borrowers, by kind of school, were in default after entering repayment. The results showed proprietary school borrowers had the highest default rates: 40 percent for 1986; while declining to 33 percent for 1987. (See figure 3.)

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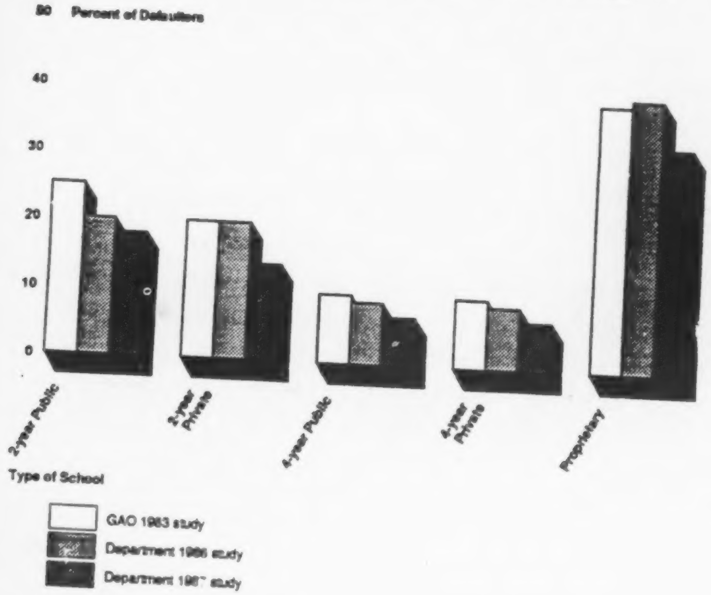
[4] Guaranteed Student Loans: Analysis of Student Default Rates At 7,800 Postsecondary Schools, GAO/HRD-89-63BR, July 5, 1989.

Figure 3: GAO and Department Studies Found That Proprietary School Borrowers Have the Highest Default Rates



GAO HAS ISSUED MANY REPORTS ON THE STAFFORD PROGRAM

You asked us to provide information about our previous work on the Stafford program. I have attached a listing of our recent products to my statement. During the last 4 years, we have issued 10 products on this program, many of which recommended ways to reduce defaults and other program costs. For example, one report[5] contained 30 options for strengthening the program and included suggestions directed to the five participants. Some of these options have been incorporated into legislation or regulations. Some of the key suggestions we made which would reduce default costs were to:

--Standardize policies for refunding tuition and fees to students who fail to complete enrollment periods. (Action taken.)

--Delay loan disbursements to students and schools for some period after classes begin. (Action taken.)

--Require that lenders share the default risk. (Action not taken.)

--Increase guaranty agencies' default risk or restructure the way in which they share this risk. (Action not taken.)

--Require that guaranty agencies share all default payments on reinsured loans with the Department. (Action not taken.)

A significant option which the Congress enacted was extending the IRS income tax refund offset program. This program offsets defaulted borrowers' income tax refunds if they do not have repayment arrangements with the guaranty agencies. In the last three tax years, this program has recovered over $500 million from student loan defaulters.

THE CONGRESS AND DEPARTMENT ACTIONS TO REDUCE LOAN DEFAULTS

When the Higher Education Act was reauthorized in October 1986, many changes were enacted to address the default issue. Among the more significant changes included establishing a loan consolidation program which allows borrowers with high student loan debt to stretch out their repayment periods for as many as 25 years, compared to normal 10-year repayment periods for Stafford loans. This program is designed to reduce defaults by allowing borrowers' to make lower monthly payments over longer periods of time. Another provision enacted through reauthorization mandated the reporting of student loan information to credit bureaus. Through this provision, borrowers who are delinquent or do not repay their student loans would have this information made part of their credit histories, which should encourage those who may contemplate defaulting to repay.

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[5] Guaranteed Student Loans: Potential Default and Cost Reduction Options, GAO/HRD-88-52BR, January 7, 1988.

The Congress continues to make legislative changes directed at reducing defaults. Most recently, as part of the Omnibus Budget Reconciliation Act of 1989 (Public Law 101-239), it enacted several major changes--especially to the SLS program. For example, one of the most significant changes is that effective January 1, 1990, no SLS loans can be made to borrowers (unless they were previously enrolled at the institution on date of enactment and had already received an SLS loan) attending schools that have default rates--as determined by the Department of Education--of 30 percent or more.

The Department has also been active in trying to reduce defaults. One of its most significant actions was publishing regulations in November 1986 creating specific requirements for lenders and guaranty agencies to follow in collecting delinquent and defaulted loans. It more recently issued additional regulations in June 1989 allowing the Department to use school default rate information to initiate sanctions against schools exceeding certain default rate thresholds. For example, schools with default rates above 20 percent must develop and submit default management plans to address the causes of defaults, or face possible sanctions by the Department.

FUTURE GAO PLANS THAT ADDRESS DEFAULTS

Despite many legislative and regulatory changes that have been made to deal with the default issue, there is still much to be done. We have several ongoing and planned assignments that relate to defaults. For example, we plan to initiate work soon on the accreditation, certification, and eligibility processes that schools undergo to become eligible to participate in the Stafford program so that students attending these schools can receive such federal aid.

Mr. Chairman, that concludes my statement. My colleagues and I would be happy to answer any questions you or other Subcommittee members may have.

RELATED GAO PRODUCTS

Supplemental Student Loans: Who Are the Largest Lenders? (GAO/HRD-90-72FS, will be issued on Feb. 21, 1990).

Supplemental Student Loans: Who Borrows and Who Defaults (GAO/HRD-90-33FS, Oct. 17, 1989).

Guaranteed Student Loans: Comparisons of Single State and Multistate Guaranty Agencies (GAO/HRD-89-92, July 11, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988).

Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, Jan. 7, 1988).

Guaranteed Student Loans: Analysis of Insurance Premiums Charged by Guaranty Agencies (GAO/HRD-88-16BR, Oct. 7, 1987).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987).

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate (GAO/HRD-87-48, Aug. 20, 1987).

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures (GAO/HRD-86-114BR, July 17, 1986).

U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
STAFF STATEMENT

Mr. Chairman and Members of the Subcommittee, we would like to approach this testimony in two parts: Today we will identify the issues that the staff has and is continuing to examine in the Federal Student Aid arena and on Monday, February 26, 1990, we will give a synopsis of our findings pertaining to a proprietary school we are examining, the American Career Training Corporation in Pompano Beach, Florida.

It is important to note that the staff's investigation is continuing. While we have done much work, much more work remains. There are many aspects of federal student aid programs that we believe merit the Subcommittee's attention: we intend to expand our investigation beyond those programs which will be examined during these initial hearings.

We can say, however, that to date we have not found one area that we have examined in federal student aid programs that is operating efficiently or effectively. We were told, time and again, that the result of this inefficiency and ineffectiveness is a tremendous waste of taxpayers' money. During our investigation, we have engaged in what can only be termed frank and honest discussions with the people involved in the oversight of these programs. Every individual we have spoken to, without exception, has told us that despite recent changes in program administration, the system is severely broken and that major changes must be made immediately to save the taxpayer's money.

It is important to note early on that, while we are convinced that waste, fraud, and abuse exist in the operation of these programs, we are not condemning every individual, agency, or educational institution associated with these programs. While abuse and fraud involving federal student aid programs has grown substantially, the majority of schools, students, lenders, and others involved in this process remain honest. Without the student aid programs, it is undoubtedly true that many Americans would not have been able to better themselves through higher education.

With that said, our investigation revealed that while the abuse and fraud has grown and spread through all types of schools and lenders, it is especially common in certain programs. Our criticism of the program is not the result of isolated incidents of abuse. Despite the lofty goals and good intentions of the student aid programs, hundreds of millions of dollars are being wasted or fraudulently obtained.

During the course of this investigation, we have spoken with representatives of the General Accounting Office, staff from other congressional committees, the Congressional Research Service, and numerous offices in the Department of Education (both here in Washington and in the field); we have interviewed officers and employees of several guarantee agencies; we have interviewed State licensing employees, school officials and students. We have reviewed the law and regulations concerning federal student financial aid.

Department of Education supervisory personnel, state licensing employees, and guarantee agency employees complained that current student loan programs, while originally designed to assist the underprivileged, are instead making many poor people poorer, while allowing unscrupulous entrepreneurs to become rich by abusing the system at little or no risk. Many complained that regulations and legislation are so cumbersome that guarantors, the Department's various involved offices, and the States all differ on their interpretation, making effective enforcement nearly impossible.

Such readily available dollars for financial aid, combined with little effective oversight, have skewed the education and employment markets. This is particularly obvious in the case of some proprietary, or for-profit, trade schools. For example, many thousands of students enroll in cosmetology courses every year, even though the business sector does not need that many new cosmetologists. Students are being lured into paying thousands of dollars to train for entry level positions that, at most, require only a few weeks study. In many cases the same programs are available at a fraction of the cost from area junior colleges or public vocational educational institutions. There would be little incentive to create and sell these high cost, but relatively useless, training programs were it not for the steady flow of available cash from federally-backed student financial aid. Unfortunately, too much of that money ends up as profits for the owners and operators of these schools, and not as payments for the cost of a quality education.

Because society generally looks upon teachers and educators with a presumption of integrity, we were told that unscrupulous businessmen and women, taking full advantage of that presumption, are easily able to abuse and defraud the financial aid programs.

As a result of these fraudulent and abusive practices, the proprietary school industry as a whole has suffered. This is unfortunate since quality trade school and vocational training serves a legitimate and necessary function in our society: for many Americans, it is the key to a financially secure future. While our investigation is not, by any means, an indictment of the entire proprietary school industry, it did confirm serious problems of abuse, and in some cases, fraud. Moreover, the problem seems to be getting worse. As the President of the Massachusetts Higher Education Assistance Corporation, a major guarantor of student loans, recently described it: "I used to buy the rhetoric that there were just a few bad apples, but then I discovered there were orchards of bad apples."

The major findings of the staff investigation to date are as follows:

STUDENT LOANS ARE BIG BUSINESS

The federal guaranteed student loan programs have become "big business." The programs have spawned an industry which is largely dependent on the availability of these funds. Through aggressive recruiting, schools are able to rapidly increase the number of enrollees eligible to receive federal aid which results in a massive influx of capital and profits. Lenders visit schools to determine the school's loan volume and to vie for the school's loan business. CPA firms assist schools in setting up the school's student financial aid programs, and then conduct the required non-federal independent audits of those same schools' financial aid programs. Even the integrity of certain CPA firms has been questioned: some of these firms become part of the corrupt system. One CPA told the staff that because he conducts audits "the way they were meant to be done," and makes findings against the schools, his business is suffering because the schools choose other CPA firms for later audits. Some individuals even suggested to us that favorable non-federal audits can be bought.

Our investigation revealed that many schools avoid or delay detection of both loan default rates and rapid increases in loan volume by dispersing their loan portfolio among several lenders and guarantee agencies. Lenders may make the individual loans, collect interest and special allowances, and sell the loan while the student is still in school and long before any collection effort starts.

The State and National Guarantee Agencies, which operate under a "not for profit" status, and the government-sponsored enterprise, Sallie Mae (the Student Loan Marketing Association) are also all making money -- in some cases a lot of money --administering these federally guaranteed loan programs.

For example, in FY 1988, Citibank of New York originated $570.8 million in guaranteed student loans. The second leading lender that year was the Bank of Horton, Kansas. Horton made $398.3 million in loans; eighty percent of the portfolio went to students of proprietary trade schools. Horton sells its loans before they come due. Lenders sell loans very quickly or after collecting interest and special allowance from the government. The First Independent Trust Company, Sacramento made $376.3 million in student loans that year. First Independent's operations were shut down last year by state regulators after the trust found itself suddenly unable to sell some loans on the secondary market. Department of Education auditors estimate First Independent owes the Department $5.3 million.

During the course of our review, we were told, time and again, that given the profits being made, there is inadequate government oversight of the operations of the lenders, guarantors, and the secondary student loan markets. While our initial efforts have focused on alleged abuses in proprietary schools, the staff intends to continue its investigation with a more in-depth review of these other equally important areas.

LICENSING OF SCHOOLS BY STATES IS NOT UNIFORM AND OFTEN INEFFECTIVE

Despite the national policy and goals underlying the student loan programs, there is no assurance, or even likelihood, that uniform standards are being applied in determining whether the quality of a school's program merits federal assistance. State licensing is one of the prerequisites for any school's participation in federal student loan programs. However, the individual states and territories have different, and sometimes diverse, requirements and licensing apparatuses to license the schools within their borders.

Some states have several different licensing departments, usually divided by the type of instruction or the type of school being operated. States differ in their legislative authority to regulate schools, revoke licenses, and some even lack the ability to license branch campuses. Citing the proliferation and variety of these offices, the Department of Education was unable to provide us with a list of State offices charged with the licensing of schools participating in student loan programs.

Moreover, our investigation revealed that state licensing procedures were largely ineffective in insuring quality education or training at participating schools. There are several reasons for this: lack of adequate jurisdiction under state law, lack of resources, lack of interest in protecting federal, as opposed to state, interests, and political pressure at the state level.

Most of the state licensing officials that we spoke to did not view the oversight of federal programs as their responsibility. This includes federal grants and student loans in the schools that they as states have licensed. State licensing boards, like other state agencies, operate under the control of the state's legislature. One employee of a state licensing agency told us that adverse action it was considering against a school was declined due to pressure by a state representative of that State's legislature. We were told political pressure can be immense, resulting in ineffective licensing. He added that this was not unusual, given the importance of many of these schools in local communities. Similar stories were related to us by employees of guarantee agencies and the Department of Education.

The California Attorney General's office told us that California has had so many problems in its proprietary schools that new legislation was recently passed to regulate the schools. Because of similar problems, state legislatures in Georgia, Texas, and New Jersey are among those that have created task forces on this issue.

Despite all these obvious problems, Department of Education officials told us that they make no attempt to monitor, oversee, or influence state licensing procedures, citing a lack of jurisdiction to do so.

SCHOOLS AND LENDERS ARE CASHING IN

An executive director of a guarantee agency, among others, told us that unscrupulous businessmen are making extremely high profits at taxpayers' expense. In his words, certain sectors of the proprietary school industry are no longer engaged in "free enterprise", but have instead become a "government-sponsored enterprise" operating and thriving at taxpayer expense. With little effective regulation from the state or federal governments, these schools prosper on a steady flow of federal student aid, targeting and manipulating students who are not sophisticated enough to realize that they are signing up for nothing more than a rip-off.

For example, a school is able to use a variety of lenders - lenders the school knows are, in turn, using separate guarantee agencies - in an attempt to hide ineligible students or students with more than one student loan. The majority of lending organizations, we were told, have no personal contact with the student whatsoever. Lenders are often faceless corporations located in a State other than that in which the school operates. They rely solely on the school, which has a clear financial interest in obtaining more students and more loans, to verify student loan application information.

Those applications are filled out by the school - in the case of the school we have examined, those applications are often completed over the phone by the school, with no apparent effort at verification. Apparently, the lenders involved do very little, if any, review or verification of the data submitted. For example, a cursory review of just one small, guarantee agency, computer generated listing of A.C.T. students with loans guaranteed through the Massachusetts Higher Education Assistance Corporation revealed:

-- a $2,265 loan made in the spring 1989 to a student at 1065 CO STREET, Frankfort, KY. I called the Frankfort, KY fire department; there is no CO street in Frankfort.

-- a $2625 loan made in the spring of 1989 to a student of Louisville, KY with the address listed as UNKNOWN.

-- a $2625 loan made in the beginning of 1989 to a student at 104 Unknown RD, Lake City, SC.

-- a $2625 loan made in the spring of 1989 to a student at 403 Cant Read, Pritchard, AL. According to the Pritchard Fire Dept, "there may be some people in Pritchard who cant read, but we haven't named a street for them."

-- a $2625 loan made in May 1989 to a student at Room 131 of the Route 95 Groton Motor Inn, Groton, CT. The student is no longer registered at the motel.

-- a $2625 loan made in the summer of 1989 to a student at 506 P.M. Street, Laurinburg, NC. According to the fire department there is no P.M. street.

Mr. Chairman, we have those records with us if you would like to see them. The point is, if a lender or guarantor cannot identify the whereabouts of a student, due diligence efforts are really a moot point. Unless the student can be found and billed, the loan will most likely result in a default.

CERTIFICATION OF SCHOOL BY DEPARTMENT OF EDUCATION PROVIDES LITTLE OVERSIGHT

Before a student of a given school is able to participate in federal aid programs, the Department of Education, through an office here in Washington, must determine if the school is licensed in the State in which it is located, is accredited by a body recognized by the Secretary, and is financially sound. Based on our interviews with numerous individuals, as well as our own examination of the certification process, we are convinced that it provides little, if any effective insurance against waste, fraud, and abuse in the programs.

With 8,000 schools participating in the student loan program, the Department receives between 300-400 applications for certification per year, and 90% of those are approved. Just in terms of resources, the Department readily admits it does not have the ability to focus on individual schools.

Department employeees told us that because of additional tasks that have been added to the already understaffed certification office, including drug-free school initiatives (that will require that office alone to review over 9,000 new certifications), the office is "drowning." Attempts to update the computerized files are failing: they simply do not have the staff to do it. The Department's certification office readily admits their enforcement program is 100% reactive.

Additionally, the law does not permit the regulations to place stiffer requirements on those sectors of the educational system, such as proprietary schools, which appear more vulnerable to abuse. Officials complained that they need the authority to regulate more narrowly, targeting those types of schools that are most suspect.

The Department of Education relies heavily on the individual state licensing departments and the various accrediting bodies to certify that a school is operating within the bounds of law and regulation. The school submits to the Department its license and letter of accreditation, the financial data, and identities of persons holding 5% or more interest in the school. There is no personal contact between the school and the Department. There is no independent verification by the Department that the information supplied is accurate: it is taken on face value.

This reliance on state licensing boards and accreditation agencies is difficult to justify. As previously discussed, state licensing bodies are widely regarded as incapable of providing effective oversight. In Georgia, for example, only two individuals are responsible for reviewing and verifying information provided for the licensing process by the state's 200 private trade schools, which have approximately 60,000 students. In Florida, four individuals currently oversee 640 schools, with two more scheduled to come on board next month. Those 640 schools account for 100,000 Florida students, and an untold number of out-of-state students, which the state does not make any effort to track.

The Department's heavy reliance on accreditation agencies in the certification process may also be misplaced. In the proprietary school sector, accreditation has been criticized as providing little, if any, assurance that quality training is being provided. As evidence, critics point to schools where serious problems have been found, despite their accreditation by at least one of the recognized agencies.

For example, students of the Culinary School of Washington, D.C., which has been the subject of several articles in the Washington Post recently, complained of receiving few classes and of having to perform unpaid work as part of their education in the cafeteria of the Blue Plains sewage treatment plant here. This school, which was accreditted, reportedly offered a mixed bag in the way of training, but charged $6900 for a six month chef's course. Most of the students received both federal grants and guaranteed loans. The accreditting body withdrew its accreditation of the school two days before the school filed for bankruptcy.

Accrediting bodies complain, too, of intolerable situations in the current system. They told us that Bankruptcy courts have held that the accreditation is a property right of the school, not the agency, so the agency is unable to pull its accreditation while a school is in reorganization.

Many of the individuals we spoke to described the Department's method of certification as the weak link in the system. The Department, relying solely on the information supplied by the school, non-governmental accrediting bodies, and state licensing bureaus over which it has no oversight, is incapable of providing little more than one more rubber stamp on a school's operations.

After receiving certification by the Department, a school must be re-certified every 4 years. We were told by employees of the Department of Education in Washington that the certification and eligibility branch, when reconsidering a school's certification, does not even ask the program review section, the Inspector General's office, or the regional field office having jurisdiction over the school for either positive or adverse information on the school. The findings made by required independent auditors or program reviews conducted by the state licensing board and guarantee agencies are not reviewed. Without checking these other files - files which should be relatively easy to locate - a school with identified violations of state or federal regulations has a good chance of being recertified. In the case of the school we are reviewing, the Department could not even find a copy of the non-federal audit conducted in 1988.

This morning, the Inspector General will testify about schools that open branch campuses or add ineligible programs to their curriculum. We found that once a school is certified by the Department, the school may add new programs without even advising the Department. With this type of policy, it is no wonder that problem schools are able to flourish using abusive and fraudulent practices when the Department is not even advised of new programs whose students nevertheless receive federal aid.

Department of Education officials told us that even if the Certification and Eligibility office wanted to review these indicators, they could not. In their view, they lack the manpower necessary to conduct what they consider to be an intensive paperwork review. This manpower problem is not confined to the Certification and Eligibility office. In the late 1970's and early 1980's deregulation with more oversight was a government policy. Unfortunately, because of budget constraints, deregulation was accompanied by less oversight and burdensome due process procedures for taking adverse action against a school or lender. We were told that while we may have saved a few million dollars by cutting back on oversight, that action will eventually cost the taxpayers hundreds of millions of dollars lost to fraud and abuse.

DECERTIFICATION HAMPERED BY DELAYS

Our investigation revealed that if a program review finds gross violations of law and regulations, and recommends to the Department that the school be decertified, the process can take anywhere from one to three years. While the Department can stop Pell Grant and campus-based funds from flowing to a school during that time, it is much harder to stop the students of the school from obtaining guaranteed student loans, if lenders decide to continue making those loans.

Officials at the certification office told us that the Department is plagued by the protracted due process system required for decertification. On the other hand, another office commented that if the certification office strengthened its initial review process for certification, perhaps there would be a much smaller group of "bad schools" for the Department to take action against. A senior guarantee agency official told the staff the Department's protracted internal review process generates most due process violations, enabling schools to continue operation even after gross violations have been noted.

PROGRAM REVIEWS: TOO FEW, TOO LATE, TOO EASY

On paper, the Department's program review process may seem impressive. In practice, our review found it to be disjointed and largely ineffective.

The Department of Education regional offices, the guarantee agencies, the state licensing boards, and the accrediting bodies all conduct school program reviews. In addition, schools must submit non-federal, independent CPA audits to the department every two years while participating in the student aid programs. Unfortunately, there is no mechanism within the Department to assure that these reviews are completed and received by the Department.

State licensing boards do not have to submit their program reviews to the Department and the states are not given access to such basic information as the amount of federal aid flowing into a school, or who the lenders and guarantee agencies are.

Federal regulations require guarantee agencies to conduct program reviews on the top ten schools, by loan volume or the schools that represent the top 2% of the agency's loan volume, whichever is greater, (this forces them to look at major universities) and the new default reduction regulations now require them to review schools with a default rate above 40% in that agencies portfolio. Further, guarantee agencies only review the files of students within that agency s portfolio - they do not review cash students or others. Guarantee agencies do not have access to other financial aid information such as

Pell grant funds, and frequently do not know the number or identities of other guarantee agencies holding loans for students of the same school. So, a school using many different lenders and guarantors may be able to evade the guarantee agency program reviews entirely.

In contrast to the state licensing boards, the guarantee agencies do file their program reviews with the Department. However, several agency officials complained that there is no mechanism or requirement for the guarantee agencies to notify either the Department or any appropriate law enforcement agency if fraud is suspected. Moreover, guarantee agencies have little incentive to initiate adverse action against a school for program violations. Even where past violations are established, the agencies generally continue to guarantee new loans for the school. The reason is simple: if the school's access to new loan business is cut off, the school will be unable to reimburse the penalties that were assessed by and owed to the guarantee agency.

Department of Education Program Review employees told us that their staffing and experience levels are woefully inadequate to protect the billions of dollars in student aid. Department officials told us that between 1985 and 1986, the program review offices were "decimated and downgraded" as a result of personnel cuts, employees moves, and changes in job functions. They lost one-third of their manpower, even though an effective program review can recover up to 15 times the cost of the review. In 1988, the Department had to "start all over again by hiring and retraining" the program review staff. Officials readily admit they still do not have the staff to do what the regulations require them to do.

For example, the Department's Region IV office in Atlanta, Georgia, has thirteen program review officers, ten of which have just been hired. That office is responsible for 1,100 schools located in eight states. Schools, taking advantage of the lack of communication between the Department's regional offices, open branch schools in other regions. Often a regional office does not even know the school is operating within its jurisdiction.

While new program review initiatives seem to be addressing the problem, program review personnel told us that the increases will only address the most severe problems, and that their work continues to be largely reactive in nature.

During the course of our review, we were also concerned by an apparent lack of credible inspection procedures in the program reviews that are conducted. Procedures used by guarantee agency, state, and Departmental reviewers seem to be particularly susceptible to manipulation by unscrupulous schools. Those reviewers that we spoke to told us that they routinely provide the school being reviewed with a listing of student files the agency wishes to analyze, and permits the school's employees to pull the files. This enables unscrupulous schools to alter the records before the reviewer actually gets access to them. One Inspector General employee told us that a school they investigated actually had two sets of student records. A guarantee agency program reviewer told us that despite several attempts to gain access to student files at one school, the school told the reviewer they were maintained at the school's headquarters in another State. To date, they have still not been given access to the files.

Moreover, when program reviews uncover violations, the school is held liable only for the actual findings of that review, with usually no follow-up to determine whether additional violations exist. Program review staff at a guarantee agency told us that even if 50% of the files reviewed reflected failure to make refunds for students who had withdrawn, the school would normally only be asked to make refunds on the files reviewed, with no other follow-up. There is no mandatory reconstruction of the school's financial aid files to determine what the actual liability of the school is. This practice enables the school to avoid costly repayment at best, and at worst, permits the school to continue its practices. Further, the school and the guarantor, and not the Department, figure the special allowance and interest that the school it is required to pay back to the government when the school has held money it was not entitled to.

INADEQUATE DATA AND POOR COMMUNICATION COMPOUNDS OVERSIGHT PROBLEMS

The shortcomings in the program review process are compounded by a lack of adequate data and communication throughout the entire oversight system. During the course of our interviews, we were given numerous examples of this problem. For instance, Departmental regional employees complained that the Department's computerized data base is so inadequate that investigators and program reviewers cannot determine who the school owners are. Even though this basic information is supposed to be in the file, often it is missing or very outdated. One senior departmental employee estimated that the data base may be 50% inaccurate. We have asked the General Accounting Office to assess the problems involved with the data base, in a later report, and we understand the Inspector General has also audited the system.

While accrediting bodies must advise the Department if a school's accreditation is removed, state boards and guarantee agencies are not required to notify the Department of any action they take against a school.

Even where the Department has important information on a school, there is little guarantee that it will be considered when the school's activities are reviewed. Although the

Department maintains several separate files on each school participating in the federal student aid programs, there is no master file or cross index for this information. Just within the Department in Washington, files on a given school may be kept in numerous sections: Finance-Disbursement; Campus Based Funds; Pell; Certification; Eligibility; Audit Review; IG audit; Inspector General investigations; and Program Review sections. In addition, files on the same school can be found in the Department's regional offices.

Copies of program reviews of schools completed by guarantee agencies are filed at the Department in Washington. However, we heard complaints that Washington refuses to send copies to the regional offices in the field. As a result, the regional offices have no way of knowing what, if any, problems may have already been identified in schools operating in their region.

Communications between nearly every part of the oversight system for federal aid programs is extremely poor. For example, Department personnel in Washington and the regional offices do not communicate well. Communications between the guarantee agencies and the Department are even worse, and the accrediting bodies are hardly ever informed of adverse findings involving their schools.

Finally, Departmental employees complained to us that the due process procedures are so cumbersome and regulations so restrictive that in some cases, the Department continues to allow lenders to make guaranteed student loans to students of a school after the Department has stopped Pell grant money flowing into that school. For example, even though the Department placed the United Schools of Florida on suspension in 1987, two years later, lenders continued to make loans to United students until the school was shut down.

ADVISORY BODIES HAVE NOT FACED THE HARD ISSUES

The Department and the Congress have at their disposal certain bodies, created by law, to address a variety of issues concerning the problems identified in the course of our investigation. Unfortunately, we saw little evidence that these bodies have attempted to address some of the major problems plaguing the federal student loan programs.

For example, the National Advisory Committee on Accreditations and Institutional Eligibility was created by statute in 1968 for the purpose of advising the Secretary on publishing a list of nationally recognized accrediting agencies. We were told by the Committee's Director that the Committee had never recommended that an accrediting body be removed from the Secretary's list and that, for that matter, the Secretary had never removed any body from the list. While the Director acknowledged that trade and proprietary schools cause the greatest problems in this area, he confirmed that the Committee has never made any recommendations to the Secretary of Education on how to deal with the problems that have been identified in that area over the years.

We also interviewed the Staff Director of the Advisory Committee on Student Financial Assistance, which was established under the provisions of the Higher Education Act of 1965. The Committee is charged to report to Congress and the Secretary of Education on numerous aspects of federal student financial assistance programs; to monitor and evaluate the effectiveness of the programs; to appraise the adequacies and inadequacies of financial aid resources and services, and to make recommendations to the Secretary. Despite its broad mandate, the Staff Director told us that the committee had purposely avoided dealing with the proprietary school issue, because it was just too difficult.

On the other hand, the Staff Director talked extensively about the problems they see in this area. Echoing many others, he told us that the real problems affecting proprietary schools are systemic, involving accrediting and licensing. He regarded the Department's eligibility process as the principal weak link, saying it is far too easy for a school to participate in the program. He described the program as an "an open door -- anyone can walk through it," thus inviting the problem of getting the bad schools out. He recommended that proprietary schools be treated differently than colleges and universities in financial aid programs, suggesting they be given stricter requirements for participation in the programs.

SOME IMPROVEMENTS ARE BEING MADE

While most of our review found serious and longstanding problems in the system, we did, fortunately, find some indications that steps are now being made to begin to address some -- but clearly not all -- of the problems. The Department's Default Reduction Initiative; the Tax Offset Program; the Federal Employee Data Match, and other new proposed initiatives may help recover some money. Increases in personnel may eventually permit the Department to assume a proactive role in detecting abuses, but, as noted, there is already a tremendous backlog of work to be done.

We were also encouraged to hear that, starting this year, the Department has instituted a program of instruction for new applicant schools. This mandatory Precertification Training Program is designed to address the often-heard complaint that the regulations and requirements involving the administration of federal student aid are far too difficult to interpret.

Mr. Chairman, this concludes our findings to date. We would be glad to respond to any questions you may have.

DEPARTMENT OF EDUCATION

Statement by

James B. Thomas, Jr.
Inspector General

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the efforts of the Office of Inspector General (OIG) regarding fraud and abuse involving the Department of Education's student financial aid programs.

OIG has assessed the student aid programs as being the most vulnerable to fraud and abuse in the Department. This assessment is based in part on audits and investigations over the last few years which have disclosed major fraud and abuse in these programs, particularly at proprietary schools.

Because of this, we have been devoting about two-thirds of our staff effort to this area (over 200 staff years). We are involved in a comprehensive program to review systemic issues in student aid. The purpose of these reviews is to recommend legislative, regulatory or management improvements intended to prevent potential program abuses from occurring. This effort is coordinated with our continuing investigations and audits of individual institutions participating in the programs. These audits and investigations identify institutions that are abusing the programs and recommend administrative action or action by prosecuting authorities where appropriate.

We have continued to find numerous instances of fraud and abuse in proprietary schools. In FY 1989, we performed 30 audits of proprietary schools which resulted in recommended recovery of about $77 million. Our investigations resulted in indictment of 10 school owners, 3 officers, 31 employees and one school entity and in conviction of 10 owners, one officer and 12 employees.

As a result of our efforts, the Department has suspended two corporations operating proprietary schools and 12 key employees of proprietary schools and debarred 7 proprietary school owners and 24 key employees under the Government-wide non-procurement debarment and suspension system. The Department also initiated action in FY 1989 under student aid regulations to end the participation of 30 schools in student aid programs. Some of these actions resulted from OIG efforts.

We continue to use our audit and investigative staff to examine proprietary schools and their owners and employees. However, we are also looking into other institutions participating in delivery of student financial aid such as lenders, guarantee agencies, secondary markets, and servicers.

In addition to audits and investigations, OIG has informally established networks with certain State and local agencies that have oversight responsibilities for proprietary schools to share information and identify problem schools. We have continued with our efforts to oversee the work of non-Federal auditors who perform statutorily required audits of the Department's student financial aid programs. We also recently issued our first two inspection reports which resulted from intensive efforts by a team of auditors and investigators at proprietary schools known to have a high default rate and other indicators of program mismanagement. Our efforts here are designed to enable us to make recommendations for administrative action, if appropriate, which can be taken quickly.

We are currently concentrating our efforts on about 215 investigations, 40 audits, and 9 joint audit and investigation efforts involving proprietary schools. In addition, we expect to issue an inspection report about every six weeks.

OIG's review of student aid issue areas has resulted in 14 management improvement reports, which include recommendations to correct systemic weaknesses that have led or could lead to recurring problems. We have worked extensively with Departmental program and policy officials dealing with the Higher Education Act reauthorization, providing them input from our audits, investigations and issue area reviews which could impact legislation.

A summary of and status report on the issue areas we are addressing follows.

Accreditation/Eligibility/Certification

Some program abuse can, of course, be eliminated if problem schools can be prevented from ever participating in the Department's programs. Before an institution can participate in the student aid programs, it must be licensed to provide postsecondary education in the State in which it is located, be accredited by an accrediting agency recognized by the Secretary of Education, and be determined eligible and certified by the Department as to its financial responsibility and administrative capability to participate in the programs. The Department's role in granting a school the right to participate in the student aid programs consists of three processes: the accrediting agency recognition process, the institutional eligibility process, and the certification process.

We have identified issues related to these processes in one audit report which was issued in September 1989, and three audits currently underway. We plan to issue to the Department draft reports on these three audits this spring, and have prepared an interim report of our audit work to date so that our concerns could be considered by appropriate officials during the planning for reauthorization of the Higher Education Act of 1965.

A brief discussion of some of the findings of these audit efforts and a recent management improvement report follows.

Financial Responsibility Certification Procedures - An audit issued in September 1989, disclosed that the Department's financial analysis certification procedures were not adequate to protect students or the interests of the Federal government. Institutions which do not meet the Department's regulatory criteria for financial responsibility participate in the student aid programs.

During the period of October 1985 through June 1988, we estimated that 53 schools closed mid-term before all education services were provided. As a result, as many as 10,000 students lost the benefits of loans and grants worth about $30 million that either the students or the government must repay.

Accreditation/Eligibility/Administrative Capability Certification Processes - Issues identified in our ongoing audit work in this issue area include the following. The Department's recognition process does not provide assurance that accrediting bodies recognized by the Secretary are reliable authorities as to the quality of educational services provided by the schools that they accredit. Primary reliance for eligibility determination is placed on State licensing and accreditation which is inconsistent and of varying degrees of quality. Institutions are being certified to participate and continue to participate in student aid programs even though they do not meet the criteria for administrative capability.

Since the three audits are still in process, and because the findings have not been fully developed, the Department has not had an opportunity to comment on the issues.

Missing IDS Data - We also issued a management improvement report that identified information missing from the Department's Institutional Data System (IDS), which is the only comprehensive source of data regarding an institution's eligibility for and participation in the student aid programs. The effectiveness of using the system as a management tool for monitoring is impaired because of the extent of missing data.

We also found that the data base for certified schools does not agree with that for eligible schools. Since the number of institutions on the certification file exceeds that of the eligibility file, and eligibility precedes certification, the difference could not be accounted for as a processing timelag.

Branch Campuses

Schools are not eligible to participate in student aid programs until they have been in operation for two years. Under current procedures, branch campuses are not being held to this requirement. We have found that schools have used the branch campus route to rapidly expand beyond their administrative and financial capability to properly control the programs and to fulfill their responsibilities to students. Further, because of the volume of branching activities, licensing and accrediting agencies have been unable to adequately monitor the growth and ensure the quality of education being provided by those branches.

The legislative intent behind requiring schools to operate for two years before participating in student aid programs was to protect students from "fly-by-night" institutions. However, this protection has not occurred because schools have been able to circumvent the two-year rule by creating branch campuses.

On the basis of its history of operating a small barber school with about 20 students at any given time who received about $50,000 in student financial aid, one school was determined to be financially and administratively capable to operate a masonry school in a major metropolitan area more than 300 miles away. Within nine months the masonry school's enrollment reached approximately 700 students receiving nearly $3.5 million in student aid funds. The branch was able to grow so quickly because it bused students, some of whom were homeless street people, in from several other cities. It closed owing many refunds to enrolled students as well as to students who had previously withdrawn.

At another school licensed and accredited in 1981, tuition grew from $2 million to $26 million as it opened 20 branch campuses between 1983 and 1986. This school closed in 1987 owing $10 million in tuition refunds and leaving thousands of students with incomplete educations.

Another school added five branches within an 18-month period, during which time refunds due grew from $150,000 to $1.4 million. Although a State agency has been successful in having some refunds paid, the school has now filed bankruptcy and it is highly likely that many students due refunds will not receive them, but will be held accountable for the full amount of their loans.

We believe that most of the problems with branch campuses could be eliminated by merely enforcing existing legislative intent. Therefore, we recommended that the Department require a branch campus to be in existence for two years before it is allowed to participate in the student aid programs.

Course Length/Course Stretching

In order to qualify for student aid funds, certain schools have misrepresented their course lengths or padded courses until they are longer than needed to train students for employment. These situations result in students not getting the hours of training they are paying for or in students spending needless time in class, paying unnecessary costs and incurring unnecessary debts. When payment for these programs is provided through student aid, taxpayers incur unnecessarily high Pell grant costs, and pay excessive interest and special allowances on loans and the costs of defaults. We have issued management improvement reports covering the course length and course stretching problems and abuse involving course length conversions.

Course Length - Our report on course length disclosed that while the Department's current eligibility determination procedures require institutions to submit course length data, the data are not always verified either by the appropriate accrediting agency or by the Department. Consequently, a number of institutions have been considered eligible for participation in student aid programs without the course length data ever being verified. We recommended that the Department change its procedures to ensure that training hours, weeks and/or months reported by an institution and used by the Department to determine eligibility to participate in specific student aid programs are verified. An example of problems arising when course length is not verified follows.

-- Continental Training Services - In September 1988, the Department of Justice and the Department of Education filed a civil suit for $366 million dollars charging Continental Training Services, Inc., Superior Training Services, Inc. and Gary L. Eyler, the chief executive officer, chairman of the board and primary owner of both companies, with defrauding the Federal guaranteed student loan program.

Continental conducted business as Superior Training Services, Inc., in almost every state and was receiving about $50 million a year in Federal grants and loans made to students. Through Superior, Eyler and Continental offered part correspondence, part "resident training" truck driving and heavy equipment operation courses which were sold to students by a nationwide commissioned sales force. About 99% of Continental's annual revenue came from tuition income and the majority of Continental's students paid their tuition with Federal student aid funds. Continental enrolled close to 100,000 students between 1980 and 1988.

Based on OIG's audit and investigation, the lawsuit alleges that Continental obtained eligibility to participate in Departmental programs by submitting false documents regarding the length of its courses and the procedures it uses to assure that students possess the ability to benefit from the courses. We also found that Continental was ineligible to participate because it had violated numerous other program requirements and that the defendants submitted or caused to be submitted thousands of false statements or claims for Federal funds to the Department.

In February 1989, the Assistant Secretary for Postsecondary Education issued a decision finding that Superior "... does not qualify, and never has qualified..." to participate in student aid programs because the programs Superior offered failed to meet minimum course length requirements.

Superior obtained a temporary restraining order and eventually a summary judgment preventing the Department from declaring Superior ineligible. The government appealed the decision and in January 1990, the court ruled that the Department must provide a hearing in accordance with the requirements of the Higher Education Act before revoking Superior's eligibility status.

In June 1989, Superior filed for Chapter 11 bankruptcy and at about the same time stopped marketing its home study truck driving and heavy equipment courses. In January 1990, Superior reportedly ceased all operations and began liquidation.

Course Stretching - Our management improvement report on course stretching disclosed the results of our review of three occupations - security guard, nursing assistant and manicurist - although we believe the problem is not limited to those occupations. We found that courses were much longer than needed for State licensure or to obtain employment. We found disincentives to schools to prepare students to enter the work force in less time and at less cost because shorter programs are precluded from eligibility for student aid programs and schools offering such courses have difficulty competing for students with institutions that can offer student aid.

As an example, although many States have no formal training requirements for security guards, and those that do require between 4 and 60 clock hours, it is not uncommon to find schools offering security guard training courses of 300 to almost 700 hours. In those schools, not only has the course length been stretched 10 to 25 times beyond State licensing requirements, but there is concern that some of the tactics taught are dangerous, and involve devices, such as "the flashlight as a defensive weapon" and "A-15 assault rifle," which cannot or should not be used by most security guard companies. Further, students attending these courses pay as much as 38 times as much in tuition as charged at other institutions such as a community college. Sometimes, employers will pay for the cost of training their employees, eliminating the need for some students to incur any debt.

We recommended that the Department consider performing a study to establish guidelines for determining appropriate course length, seek legislative authority for approving and monitoring course length, and expand required consumer information for students about training options.

Clock Hour/Credit Hour Conversion - Our management improvement report on clock to credit hour conversions advised the Department to take action to limit abuses that occur when schools assign unreasonable credit hours to clock hour training programs solely to obtain additional funding. By ignoring equivalencies established in student aid regulations which equate supervised training programs to term-based credit hour programs, student financial aid awards can easily be increased two or three fold without changing either the quantity or the nature of the program. Students are thereby indebted for even greater amounts without receiving any additional training and taxpayers pay more for the programs in the form of grants and defaulted loans.

At one school in Oklahoma, a nine-month dental assistant program, which was a one academic year/900 clock hour program equivalent to no more than 24 semester hours, was converted and assigned two academic years/48 semester hours. After the conversion, student aid maximum awards increased from $4,800 to $9,700. At the same school, the x-ray technician program, which was 1300 hours/35 credit hours long, was converted to more than 78 credit hours. This increased the program's student aid funding qualification from $8,500 to nearly $18,000, with students enrolled in this program eligible for up to four guaranteed student loans, the same number that can be made to full-time students in traditional four-year degree-granting institutions. Further, this school's 500 clock hour program in basic medical procedures was converted to 30 credit hours, thereby qualifying its enrollees for Pell grants and a second guaranteed student loan. The monetary effect of this conversion was to raise potential student aid awards from $2,625 to $8,025, a three-fold increase with no change in the quality or quantity of the training provided.

Our primary recommendations are that the Department enforce the student aid equivalencies so that, regardless of the system of measurement used, students enrolled in courses of similar content and length qualify for similar amounts of student aid funds.

Ability to Benefit/Admissions Practices

In November 1989, we issued a management improvement report which discusses how certain schools improperly screen students to assure they have the ability to benefit from the Federally funded training provided. Students without a high school diploma or equivalent may enroll in an institution under an "ability to benefit" provision (as determined by a test or counseling) and be eligible for student aid. Such students are often aggressively recruited by commissioned salespeople. Students who are improperly screened usually drop out, often after incurring debts they have no means to repay. If they then default, they harm their credit rating and are not eligible for future aid to obtain skills needed to get jobs.

We recommended program improvements designed to remove the incentives that currently allow schools to admit students who cannot benefit from the training provided. Our recommendations were based on many audit and investigative findings, including the two ongoing audits and the completed audits and investigations described below.

Our draft audit report on a chain of 14 technical schools, under the same ownership as a beauty school with a different name, describes how students at the chain received $37 million even though at the schools we visited students were not properly tested to determine their ability to benefit. At these schools, students were to be given a test to determine whether they could benefit from the training provided. However, we found that the tests were not properly administered (i.e., not administered within a prescribed time limit) or students were admitted even though they did not attain the minimum passing score. Based on these and other findings, we are planning to recommend that the schools refund to the Department and lenders all student aid funds and related interest and special allowance charges.

Continental Training Services - In the case involving Continental described in the prior section, the suit alleges that Continental employees altered wrong answers on ability-to-benefit exams which changed failing grades into passing, or provided the potential student with answers to assure that the individual could enter the school. Individuals who had physical disabilities which would prevent them from driving a truck or from obtaining a license to do so were enrolled. Individuals were enrolled who could not get licenses because of prior driving or criminal records or who were serving prison sentences which could prevent them from attending resident training within a reasonable time.

Wilfred American Educational Corporation - As a result of OIG's investigation, in October 1989, a Boston grand jury returned a 12-count indictment charging Wilfred American Education Corporation, Wilfred Academy, Inc., and American Business Institute, Inc., with mail fraud involving a scheme to defraud the Department's student aid programs of over $10 million. The indictment alleged that the defendants, through its employees, engaged in a complex scheme from prior to 1979 until at least February 1986 to defraud the Department, Wilfred's students and prospective students by means of false and fraudulent pretenses, representations and promises, and material omissions. The indictment charges that Wilfred attempted to recruit young, unlearned, disadvantaged students through a multi-media advertising effort and used commissioned sales agents who were required to meet or exceed certain enrollment quotas. The sales agents are alleged to have used high pressure and deceptive sales practices, as well as engaging in falsification of various enrollment documents, financial aid applications, and ability to benefit test results in order to enroll applicants and qualify them for Federal aid. No trial date has been scheduled.

In addition, in October 1988, Wilfred American Educational Corporation and its president were indicted by a grand jury in Florida for offenses at Wilfred's operation of Academies of Hair and Beauty Culture in that State. In addition, 18 employees were charged with conspiracy and making false statements and/or stealing, embezzling or misapplying funds.

In this case, 11 of the 18 employees have pled guilty to various counts of making false statements. A trial date of March 5, 1990, has been set.

Ultissima Beauty Institute - Our audit of Ultissima Beauty Institute showed that the school used four different tests to determine whether students could benefit from training. One of the tests was a bogus exam, according to the exam publisher. Two other tests were untimed or otherwise improperly administered in ways that invalidated the results. Tests available only in English were included in files of non-English speaking students, and many of the files contained answer sheets that appeared to have been altered. Ultissima employed commissioned salespersons, and through interviews and a review of the school's sales manual, we found that ability-to-benefit tests were used largely as sales tools rather than to properly screen students' abilities. Based on these and other findings, we recommended Ultissima refund to the Department and lenders all student aid funds and related interest and special allowance charges.

Hausman Computer School - Our audit of Hausman Computer School disclosed that Hausman used false high school diplomas to admit virtually all of its students. The audit recommended refund of all Pell grants and guaranteed loans received, about $24 million, and repayment of interest and special allowances. Based on our investigation, one owner was sentenced to serve one year and one day in Federal prison and repay $790,000; the other owner was sentenced to one year and two months in Federal prison and ordered to pay $1 million in restitution; and the recruitment director was sentenced to three years in Federal prison, with all but four months suspended, and ordered to pay $254,000 in restitution.

Refunds

Certain schools are not making required refunds of Federally funded tuition when students drop out of training, which results in increased costs to the student borrowers in terms of amount of debt and to the Department in terms of interest and special allowance payments and defaults when they occur.

We are planning to issue an audit to the Department which describes the magnitude of the refund problem nationwide and develops recommendations for a systematic approach to identifying schools not making refunds or making late refunds. Examples of some of the problems we have found in the refund area follow.

National Technical Schools - Our audit of National Technical Schools, Los Angeles, California, disclosed that the school did not make refunds to students who had withdrawn by not submitting lessons. We found about $3 million owed to students under the school's refund policy. In addition, we found that the school's policy was not fair or equitable and students were overcharged a total of $75,000 for registration fees and $384,000 for equipment they did not receive.

In November 1989, the California Attorney General filed a consumer protection action against the school in superior court alleging that the school made numerous false representations about its teaching program. The suit asks for $22 million in restitution and $2 million in fines.

CitiCollege - Our audit of CitiCollege showed that the school could not refund $390,000 that was due to students who withdrew because the funds were used to pay other, questionable expenditures. It also retained $202,000 to which it was not entitled because it ceased operations in 1988, preventing 151 students from completing their education. We recommended the school refund the funds and repay the Department interest and special allowance.

Adelphi Institute - An investigation resulted in a 235-count indictment by a grand jury charging the former owner of Adelphi Institute in New York with stealing tuition money that was to have been refunded to students after they dropped out of its Brooklyn school.

Participating Institutions Other Than Schools

Many of the student aid abuses we have focused on affect other student aid programs: guaranteed student loan programs, Pell grants, Perkins loans, College Work Study funds, and Supplemental Education Opportunity Grants. Under all of these programs, except for the student loan programs, there is a direct relationship between the Department and the institution that receives student aid funds. The loan programs, however, operate through State and private, nonprofit guarantee agencies, using private loan capital supplied primarily by commercial lenders. At times loans are sold to the secondary markets and at times responsibilities of the lenders are contracted to servicers. Because of the vulnerability and size of the program, we have several initiatives underway to assure ourselves that lenders and other parties participating in the loan programs are complying with regulations and to identify areas in law and/or regulation which could be strengthened.

We have issued a series of management improvement reports and in some cases have done or have ongoing audits and/or investigations involving these institutions which participate in the student aid programs. A brief summary of these follows.

Secondary Markets

Secondary markets are authorized to purchase student loans from lenders to ensure that sufficient funds are available for the student loan programs. Secondary markets held approximately $18.4 billion or 40% of the outstanding loan portfolio as of September 1988. This statistic excludes lenders which also act as secondary markets. Despite the overwhelming presence of secondary markets in the student loan program, the Department has not systematically received audits of the secondary markets' administration of the loan programs nor has it provided systematic program review coverage of these organizations. Also, our review indicated that the Department does not know how many secondary markets exist or whether anyone is evaluating their performance.

In a management improvement report, we recommended that the Department seek legislative change to provide for audits of the administration of the guaranteed student loan programs by secondary markets not currently covered by other audit requirements and, establish a system of oversight.

Third Party Servicers

A significant portion of the guaranteed student loan portfolio (over 41%) is being managed by loan servicers, which vary in scope of services provided, size, and the rate at which their portfolios are growing. As of September 30, 1988, at least $18.6 billion of the $45.1 billion loans outstanding was administered by loan servicers. Although some reviews are conducted by lenders, guarantee agencies and CPAs, the coverage is neither systematic nor consistent. In addition, many servicers are affiliated with guarantee agencies and there exists a potential conflict of interest in guarantee agency reviews of servicers.

The risks to the Department related to not monitoring servicers include (1) payment of inaccurate interest and special allowance billings, (2) reduced collectibility of loans, (3) reinsurance payments on ineligible claims, and (4) wrongful harm to borrowers' credit ratings.

For example, Departmental program officials and officials from two guarantee agencies performed a joint review of a servicer which administered a large portfolio of guaranteed student loans. They identified failures to perform due diligence and inaccurate record keeping which impacted on the collectibility of the loans. This, along with the submission of inaccurate claim history, increased reinsurance costs to the Department.

In a management improvement report, we are requesting that the Department improve its oversight of servicers by requiring servicers to obtain an annual audit of compliance with the student loan regulations.

Lenders

We have identified two issue areas involving lenders. These are (1) performance of due diligence requirements to assure collectibility of loans, and (2) payment of origination fees due the Department for each loan.

Due Diligence - Lenders participating in student loan programs are required to perform certain actions within specified timeframes to help assure the collectibility of loans. These actions constitute "due diligence" in loan management.

In November 1986, the Department issued revised regulations which contained more stringent and specific due diligence and timely filing requirements for lenders. Although these revised due diligence regulations have been in effect for three years, lender reviews, performed by guarantee agencies, show a high level of noncompliance, especially in the repayment and collection area.

To determine whether lenders were meeting the due diligence requirements, we analyzed the results of 101 lender reviews conducted by 13 guarantee agencies during 1987 and 1988 and found that 87 percent of the lender files reviewed contained what we considered due diligence exceptions. In one extreme case, a review of one lender disclosed that there were 18,153 delinquent accounts and that the lender had been unable to maintain consistency in follow-up efforts in contacting borrowers.

Even if this one lender were excluded from our analysis, 33% of the files reviewed at the 100 lenders contained due diligence exceptions. We have concerns with this high rate of noncompliance because specific due diligence requirements were included in the regulations to help protect the Federal government from unreasonable risk of loss and to improve the collection of loans nationwide.

In a management improvement report, we recommended actions aimed at reducing instances of noncompliance by lenders with the Department's due diligence requirements and at improving the quality of lender review reports issued by guarantee agencies.

Following are two examples of due diligence problems disclosed in our investigations.

-- Baybanks Credit Corporation - On February 2, 1990, Baybanks Credit Corporation pled guilty in Boston to a one-count information charging the corporation with fraud involving falsification of documents related to the guaranteed student loan program. As part of its plea, the corporation agreed to pay a $500,000 criminal fine and make restitution of $248,753 to the Department.

An OIG investigation determined that between January 1985 and July 1986, Baybanks submitted 76 falsified default claims to its guarantee agency. In August 1986, the corporation filed a "Report of Apparent Crime" with the Federal Deposit Insurance Corporation and the Office of the United States Attorney which reported that an internal audit had uncovered evidence that three employees, two of whom were officers, had forged or were aware of forged borrower signatures on guaranteed student loan forbearance agreements contained in default claims submitted to and paid by the guarantee agency. The forged forbearance agreements provided an acceptable explanation for otherwise impermissible delays between a delinquency and the presentation of a default claim to the guarantee agency.

Further investigation by the OIG and the United States Attorney's Office after August 1986 showed that, beginning in 1983, several other officers of Baybanks, including corporate vice-presidents, were aware that documentation relating to the Federal student loan program was being forged and that some officers encouraged and even participated in the practice. There was evidence that between 1983 and July 1986 officers directed student loan collectors to fabricate computerized records of collection activities and the collection correspondence and 60-day delinquency notices. There was evidence that student loan collectors backdated collection cards and collection correspondence. The collectors and some officers also traced student signatures onto forbearance agreements. These actions provided the false appearance that proper due diligence had been performed by Baybanks in trying to collect delinquent loans.

-- Florida Federal Savings Bank - A Federal grand jury in Tampa, Florida, returned a 43-count indictment in

September 1989 alleging that Florida Federal Savings Bank (formerly Florida Federal Savings and Loan Association), through its officers and employees, submitted up to 17,000 fraudulent insurance claims worth approximately $35 million for principal and accrued interest on guaranteed student loans.

The indictment charges Florida Federal and two former officers with conspiring to defraud the Department's student loan program; making false statements and presenting false claims to the Department and guarantee agencies; mail fraud, and theft of government funds. The indictment alleges that default claims were supported by documents falsely reflecting that certain collection activity was performed on the loan accounts, and that the two former officers instructed other bank employees to create false records to show that required collection activity was performed in conformance with Federal regulations, contracts, and guarantee standards and procedures.

The trial date is pending.

Origination Fees - Some lenders are not submitting loan origination fees promptly to the Department, as required. This costs the Federal government a significant amount of interest expense.

One Department program review disclosed that in March 1988, a lender had not submitted Form 799, which identifies origination fees owed to the Department, for six quarterly periods. The total of unpaid origination fees was $4.4 million.

Another review performed in 1989 showed that a lender continually failed to file Forms 799 for origination fees dating back to June 1987. The guarantee agency notified the lender of its intent to terminate the lender from the program as of May 1989. In May, when the State Banking Commission took control of the lender, about $5.5 million in origination fees was owed to the Department.

We recommended that the Department institute controls to ensure that all Forms 799 are submitted in a timely manner and that loan origination fees are remitted to the Department promptly.

Lender Reviews

We are recommending improvements to recently required reviews of lenders by guarantee agencies. This requirement is for guarantee agencies to perform biennial on-site reviews of participating lenders meeting certain thresholds of loan volume, beginning with the biennial period ending December

31, 1988. However, we found that neither the Department nor the guarantee agencies as a group have identified minimum standards applicable to guarantee agency lender reviews. Thus, we found variability in guarantee agency approaches. We also found that there is an inherent potential conflict of interest in that a guarantee agency performing a lender review that results in a financial liability may risk losing the revenue it receives from guaranteeing the lender's portfolio.

Supplemental Loans for Students (SLS)

Statistics reported by the General Accounting Office, guarantee agencies and others indicate tremendous growth of SLS loans in the proprietary school sector. Certain proprietary schools have increased their tuition fees and have improperly certified dependent students' eligibility for SLS loans which increases the volume of SLS dollars coming into the schools.

To illustrate, our ongoing audit of a chain of beauty schools disclosed that the school abused the ability to benefit provisions, had high drop-out and default rates, was not making refunds to lenders on time, and was improperly certifying dependent students as eligible for SLS loans. Furthermore, we found that because of the amount of tuition charged, most students attending the beauty schools needed the Federal loans as well as grants to pay for their tuition. Also, this school's tuition increased at the same time that the SLS program was introduced to the proprietary schools sector. In September 1985, tuition at the school was $4,395; however, in March 1988 when SLS money became available, tuition increased to $9,007. At another school, tuition increased from $3,950 in 1986-87 to $6,550 in 1989-90, but will decrease to $4,000 in 1990-91 because, according to the school director, the school lost its participation in the SLS program.

Our management improvement report expressed support for SLS loan restrictions recently enacted by the Budget Reconciliation Act of 1989. In addition, we recommended the Department seek the necessary authority to require schools to disclose their basis for the tuition being charged.

PLUS

Current PLUS regulations do not require loan recipients to appear before either the lender or the school. Loan proceeds are sent directly to the parent borrower on behalf of the eligible student, whereas the proceeds of other guaranteed loans provided to students are sent directly to the school the student plans to attend. Further, PLUS loan checks are made payable to the parent borrower whereas the other loan checks are make co-payable to the student and the school.

Recent investigative cases have illustrated the ease with which ineligible or nonexistent applicants can receive PLUS loans. We have found that for over 193 PLUS loan applications processed by one guarantee agency involving 118 individuals, the school portion of the application was falsified. In most of the cases, the student or child was nonexistent. At an average value of $3,500, these loans represent approximately $675,000 of potential loss to the taxpayers.

In cases such as those described above, the loans are likely to go into default status, leaving the Department to pay reinsurance claims to guarantee agencies. PLUS loans guaranteed in FY 1988 totalled in excess of $537 million. We recommended that procedures be put into place to reduce the risk to taxpayers.

Non-Federal Audits

All institutions of higher education are required to obtain audits by non-Federal auditors at least biennially. In accordance with the Inspector General Act of 1978, we are required to assure that these audits meet the auditing standards issued by the Comptroller General.

During FY 1989, we performed desk reviews on 3,156 student financial aid audit reports. A desk review is a review of an audit report by the OIG at its offices. Of the audits desk reviewed, 835, or 27 percent, were found to contain significant inadequacies or other deficiencies. We performed quality control reviews of the underlying working papers on 192 audit reports. Of these audits, 114, or 59 percent, were found to contain significant inadequacies or other deficiencies.

In the most egregious cases, we refer the auditors to State boards of accountancy and to the American Institute of Certified Public Accountants (AICPA) for disciplinary action. We have made 46 such referrals since April 1, 1985. As a result of the deficiencies identified above, in FY 1989, we made 16 referrals of independent public accountants to the appropriate State licensing board. Twelve of these were also members of the AICPA and were also referred to that organization.

-- In 13 cases, the CPA did not have working papers to support the tests of compliance requirements, and in 12 cases did not have working papers to support the internal control review.

-- In five instances, there was no supervisory review of the working papers, even though they had been prepared by a junior member of the firm.

-- In two other instances, reports were submitted by practitioners who were not certified public accountants.

Each of these represents a significant inadequacy and violates government auditing standards. Actions taken by the State boards in FY 1989 on referrals made in prior periods include one instance where the CPA was put on probation for three years and may not issue any governmental audits during that period. Other actions include requiring the auditors to take continuing professional education in government auditing and requiring them to submit their practice and/or future audits to peer reviews.

OIG has taken various steps to improve the quality of student aid audits. We revised the Audit Guide in May 1988. Following issuance of the Guide, we conducted training sessions in eight cities around the country to inform auditors of the new requirements during FY 1988 and early FY 1989. More than 2,000 independent public accountants and State auditors were trained at these sessions.

We continue to maintain good lines of communication regarding audit quality issues through the Audit Quality Roundtable sponsored by the President's Council on Integrity and Efficiency. This Roundtable, composed of representatives of selected CPA firms, various professional groups, and other Inspectors General, meets periodically to discuss audit quality issues and possible solutions.

We hope to see a noticeable improvement in audit quality in FY 1990. This is the first full period in which audits conducted in accordance with the May 1988 audit guide are due. Audit quality will, we hope, be improved by the use of the May 1988 guide, by the training provided to practitioners, and by technical assistance provided to practitioners and others.

In addition to the 1989 activity as described above, three cases we referred in recent years were due in part to a lack of independence on the part of the auditor or firm from the school being audited.

In one case, a partner of a two-partner firm which conducted an audit of a school was an active member of the board of directors of the school. Although this partner was not responsible for the audit, this was a clear violation of the independence standard. The auditor was referred to the State board and the AICPA. Outcomes of these referrals are pending.

In another case, a CPA signed the audit report although most of the audit work was performed by an employee of the school. Essentially, the student aid administrator audited his own work. There was no evidence in the working papers that the CPA had reviewed or tested the work done by the administrator. The CPA was referred to the State board which issued a one-year suspension (stayed), and one year's probation. He was not a member or the AICPA.

In a third case, the CPA who did the audit was a nephew of the owners of the school. In this case, while the auditor was licensed to practice, he was not a practicing CPA. He performed the audit as a favor to his aunt. The CPA was referred to the State board and the AICPA. The State board issued a one-year suspension (stayed), and one year's probation. The AICPA suspended the auditor for three months, and required 40 hours of professional education and review of one audit by them for each of the next two years.

In each case, we also found deficiencies in the audit work. However, we found nothing to indicate that the independence problems were the cause of the deficiencies or otherwise had a direct effect on the way the audits were conducted.

As described above, we are addressing student financial aid issues in various ways and devoting significant effort to this area. To the extent possible and appropriate, we will provide the Department and Congress with information useful in efforts to improve the student financial aid programs through the reauthorization process. Due to the funding and complexity of these programs and the changes being recommended and made to the programs, I also expect that the student aid programs will continue as a high priority for OIG during 1990 and 1991.

In 1989, Department figures show that more than 1,400 institutions had default rates of 30% or higher. During 1989, we were able to audit only 30 institutions and we had only some 200 active institution-related investigative cases. This is despite the fact that during that year, we devoted 75% of our resources to the student aid area. In addition, these efforts left only some 25% of our resources for other programs, some of which we believe are also vulnerable to fraud, waste and abuse.

OIG has assessed that 509 staff are needed to accomplish our priority work. However, OIG has been requesting the increase incrementally over a number of years in order to provide more reasonable requests for increases and to bring new staff on board more efficiently. New staff require on-the-job training by experienced staff, particularly with the Department's complicated program regulations. The results of bringing new staff on board are usually not apparent for at least a year because of this. From an FTE usage of 309 in FY 1988, we have increased to 330 for FY 1990. The FY 1991 proposed budget provides 360, with a funding level of $25.8 million.

Mr. Chairman, I thank you for the opportunity to report on our efforts in the student aid area. I would be happy to answer any question you and other Committee members may have.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

RECEIVED BY
SENATE PERMANENT
SUBCOMM ON INVESTIGATIONS
MAR 15 1990
MAJORITY OFFICE

March 14, 1990

Honorable Sam Nunn
Chairman, Permanent Subcommittee
on Investigation
Committee on Governmental Affairs
United States Senate
Washington, DC 20210

Dear Senator Nunn:

In response to my recent testimony on February 20, 1990, I am responding to questions asked by Senator Levin.

Page 107, Lines 3 - 9

"Senator Levin: Would you give us a recommendation on that issue, whether or not we ought to require some automatic re-certification or certification of eligibility, if schools go above certain levels of defaults or under what circumstances that be part of an original process, so that we do not have to take something away that is part of an original approval?"

See Tab A for response.

Page 116, Lines 9 - 15

"[Senator Levin:] I would think we at least ought to look at a prohibition against any person who is in the loan business or in the guarantee business from also being in the collection business after the 180 days or having an interest as a collection agency. I wonder if you could give us a report back as to whether that would not eliminate what seems to be a very inherent conflict of interest."

See Tab B for response.

Thank you for the opportunity to testify before your Subcommittee regarding the Abuses in the Federal Student Aid Programs. I look forward to working with you in the future. If I can be of further assistance, please do not hesitate to call me on 453-4039.

Sincerely,

James B Thomas Jr

James B. Thomas, Jr.

Enclosures

cc: Honorable Carl Levin

Certification

Through the certification process, the Department determines that a school is financially responsible and administratively capable of handling participation in the Title IV student financial aid programs. The purpose of the certification process is to protect both ED and students against loss by keeping financially troubled and administratively deficient institutions out of the SFA programs. Examination of educational quality, however, is not part of the certification process, and ED has no authority to make it so. Thus, as long as an institution is financially strong and capable of administering Title IV programs, ED cannot deny participation even if educational programs lack merit.

We have found that ED's Certification Branch has not implemented this process efficiently and thus the controls provided for by regulations were not effective. We also found that institutions are not required by regulation and do not undergo a recertification, even when they make a major change, such as adding branch campuses. Unless a school changes owners, after initial certification, an institution may never again be reviewed for its financial responsibility and administrative capability to participate.

Our review of the Certification process concluded that in many instances, OPE was aware of financial and administrative problems at schools and if it would have taken appropriate action, either the schools would not have been allowed to participate in the SFA programs or there would have been adequate surety in place to cover the students' and the government's risk of loss.

Recommendations

We have recommended:

1. ED consider changing the certification regulations and forms to require that all schools be recertified on a periodic basis, e.g. not less than every four years, to assure that they continue to meet the minimum criteria for certification to participate the the Title IV programs. We recommend that this recertification be done in conjunction with OPE's requirement that schools renew their eligibility every four years.

2. ED require institutions to provide audited financial statements for the two most recent complete fiscal years and a interim report on the institution's current financial condition for review, and require the president of the institution as well as the CEO to certify the accuracy of all information provided as part of the certification review.

3. ED deny certification or recertification to schools that do not meet the financial responsibility tests.

4. ED assess the risk of loss to both students and the government by obtaining projected cash advance information from each new institution and by obtaining FMS cash advance reports and student financial aid data for each institution it recertifies.

5. ED require that surety arrangements be made at a level sufficient to cover both the students' and the government's risk of financial loss.

6. ED increase surety arrangements currently in force to the extent necessary to assure that the risk of loss to both students and the government is adequately covered.

We believe that if these recommendations were implemented, many financially unstable and "bad" schools would be kept out of the programs in the beginning. Keeping an inferior school out is easier than amassing evidence to show sufficient wrongdoing to terminate a school.

Default Collection

We share Senator Levin's concern that there might be an inherent conflict of interest in a structure that allows a guarantee agency to provide preclaim assistance, then pay a lender for a default and then collect on the loan. In such instances, the guarantee agency is permitted to retain 30% of the collections (35% of the collections if the guarantee agency is located in a State that has enacted a garnishment law that complies with Section 428E of the Higher Education Act.)

With respect to their role in the prevention of defaults, guarantee agencies' principal tools are preclaims assistance, supplemental preclaims assistance, and monitoring of lender and school compliance with program requirements. In addition, guarantee agencies that also function as servicers may get directly involved in performing lender due diligence functions.

An economic disincentive for a guarantee agency to not allow loans to go into default is the kicking in of the trigger figure. The trigger figure is the ratio of reinsurance claims paid to a guarantee agency during any fiscal year to the agency's total amount of loans in repayment at the end of the preceding fiscal year. If this ratio equals 5 percent, an agency is reimbursed for 90 percent of its losses (defaulted loans.) If the ratio equals 9 percent, the agency is reimbursed for 80 percent of its losses. However, the majority of guarantee agencies have not hit the trigger figures. There may be other economic disincentives. However, from an economic standpoint, the 30/35% collection proceeds benefit may provide more actual benefits for an individual guarantee agency.

Thus, although we have no statistics or examples or even a reason to believe that guarantee agencies favorably permit or encourage defaults, it may be economically sound for a guarantee agency to allow loans to default in order to be able to collect them afterwards. The disincentive for aggressive default prevention does appear to be a weakness of the current guarantee agency structure. Guarantors that do not hit the triggers may not have financial incentives to reduce defaults and may in fact have strong incentives to allow them to occur.

It is our understanding that the Department is addressing this issue in the Higher Education Act reauthorization.

SUBCOMMITTEE STAFF INVESTIGATION
OF
AMERICAN CAREER TRAINING CORPORATION

At the initial stage of its investigation into the issue of abuse in federal student aid programs, the Subcommittee Staff determined that it would be beneficial to review the operations of a proprietary school, particularly a school which seemed to be relying heavily on Federal student loan programs. In December, 1989, we reviewed Department of Education files and decided upon American Career Training Corporation. Preliminary information disclosed the A.C.T. 1985 student loan volume to be $2,941,423, compared to their 1988 loan volume of $43,971,917. This represents an increase in loan volume of $41,030,494 over three years, in other words, a 1,395% increase.

The Corporation does business as the A.C.T. Travel School and the HART School for Professional Secretaries. Files disclosed that the schools operated only in Pompano Beach, Florida, and had no branch campuses. The coursework for both schools is a combination of correspondence (home study) and in-residence courses.

The school is wholly owned by Joseph and James (Jim) Calareso who are president and vice president respectively. The corporation occupies four buildings in Pompano Beach. These include the central offices; the A.C.T. travel school; the HART secretarial school; and a research and development office. The corporation's inception date was June 14, 1982. According to the A.C.T. president, the travel school was established and licensed by the State of Florida in January, 1983, and enrolled its first student on February 10, 1983. At that time, students paid cash, usually through an interest-free payment plan with the school. On May 7, 1985, the travel school was certified by the Department of Education and determined eligible to participate in the Guaranteed Student Loan Program. On October 20, 1987, the secretarial school was added to the participation agreement with the Department of Education.

Today, the corporation is not only licensed in the State of Florida, but also in 25 other states. As we testified last Tuesday, state licensing requirements vary widely; some states require that a school be licensed prior to the school conducting any business in that state, to include advertising and sales.

According to Joe Calareso, the school was accredited in 1985 by the National Home Study Council (NHSC), the "only accrediting body that will accredit" combination home study/in-residence courses. Joe Calareso is an NHSC trustee and remains active with the Council. The NHSC verified Calareso's trustee status. In addition, A.C.T. rents motel rooms to students in the residency phase of the course from the Calareso Real Estate partnership. Calareso told us there are "hundreds of proprietary schools that would fit in the A.C.T. parking lot."

In December, 1989, we conducted a preliminary visit to the Florida Department of Education licensing offices in Tallahassee. We notified the Department of our intention to review A.C.T. We were given full access to their files on the school. We were informed that the Florida Department of Education planned a January, 1990, on-sight visit to the school. We were invited by the State to attend as observers.

While in Tallahassee, we also visited with and reviewed the files of the State's office of Student Financial Assistance, Florida's guarantee agency.

During that visit, we learned that, in addition to Florida, the Massachusetts and Pennsylvania guarantee agencies had recently completed reviews of A.C.T. Moreover, the Higher Education Assistance Foundation, yet another guarantee agency, had conducted program reviews and made substantial findings. Mr. Chairman, the Staff submits copies of these reviews for insertion into the Record. We had found more than we had expected.

Based on our preliminary findings, the Subcommittee Chairman authorized a full investigation of the school in December, 1989.

During this investigation of the corporation, we have reviewed materials from twenty guarantee agencies; the A.C.T. corporation; the State of Florida; the Department of Education - both headquarters and Region IV; a required non-federal audit conducted by a CPA; the National Home Study Council; and we have interviewed a group of both graduates and drop-outs of the A.C.T. programs. Additionally, we have interviewed current and former corporation employees.

The Subcommittee has subpoenaed and reviewed A.C.T. records, along with the records of 19 guarantee agencies. We have requested certain student records, business records, and general information about former and current employees of A.C.T. We have secured the assistance of auditors to organize the relevant materials.

Mr. Chairman, we were not looking for a "worst case example" when we chose A.C.T. As you heard in testimony last Tuesday, the Inspector General's files were replete with examples of those. Rather, we chose this school for our case study due to its substantial loan volume.

The findings that the staff has made are numerous, and, in our opinion, strongly suggest intentional abuse of the guaranteed student loan system. Our findings are as follows:

SUBCOMMITTEE STAFF FINDINGS

1. THE CORPORATION EXPERIENCED A MASSIVE INCREASE IN SCHOOL ENROLLMENT AND REVENUE AFTER CERTIFICATION TO PARTICIPATE IN THE GUARANTEED STUDENT LOAN PROGRAM

Our investigation disclosed that A.C.T.'s student enrollment has increased dramatically since 1985. Joe Calareso told us that in 1984, prior to its participation in the guaranteed student loan program the travel school enrolled approximately 1,000 cash students. Tuition was $1,295 at that time. Today, the tuition is $2,195. Today, over 90% of the students enrolled at A.C.T. receive federally-backed student loans.

We reviewed the files of the guarantee agencies' portfolios pertaining to loans to A.C.T. students.

For the period 1985-89, 15 guaranty agencies guaranteed 62,368 loans, valued at over $153 million for A.C.T. students. In 1985, 2,048 A.C.T. students received loans valued at $4.7 million. Both the number and dollar value of loans guaranteed increased dramatically to 18,345 loans, totaling $46 million in 1987. Volume remained at about the same level in 1988. The table below shows the change in loan volume for calendar years 1985-89.

Year	No. Loans Guaranteed	Dollar Value (in millions)
1985	2,048	$ 4.7
1986	9,414	22.5
1987	18,345	46.2
1988	18,405	45.5
1989	13,953	33.9
UNKNOWN YEAR – [year loan originated could not be determined from file]	203	0.5
Totals	62,368	$153.3

According to A.C.T.'s financial statements, its inception was on June 14, 1982 and operated on a fiscal year (FY) ending May 31. For the initial year of operation, FY 1983, A.C.T.'s revenue was $21,915. Revenues increased moderately over FY 1984 and FY 1985 to $382,733 and $703,321, respectively. In May 1985, A.C.T. was certified by the Department of Education to participate in the Guaranteed Student Loan (GSL) program. As a result of participation in the GSL program, there was an immediate impact on A.C.T.'s revenues which increased significantly to $5,481,353 for FY 1986.

During 1986 A.C.T. changed its accounting period from a fiscal year to the calendar year basis. For the seven month period ended December 31, 1986 during the transition period, revenues increased to $6,210,362, exceeding the prior twelve month period.

Revenues continued to soar over the next three years to $16,910,995 in 1987, nearly doubling to $32,554,949 in 1988, and reaching $34,469,571 in 1989.

During the first three years of existence A.C.T. experienced net operating losses (expenses exceeded revenues) which reached $90,926 for FY 1985. However, this trend was reversed in FY 1986 with participation in the guaranteed student loan program. During FY 1986, A.C.T. had a net operating profit (revenues exceeding expenses, including owners' salaries) of $175,956. For the seven month period ended December 31, 1986, A.C.T.'s net operating profit increased to $2,273,277. For 1987 and 1988, A.C.T. continued their profitable trend by having net operating profits of $2,279,505 and $3,828,587, respectively. For 1989 A.C.T. again had a substantial net operating profit of $827,433, which decreased from the prior two years because of increased expenses without a corresponding increase in revenues.

2. REVIEW OF CORPORATION FINANCIAL DATA DISCLOSES PHENOMENAL PROFITS FOR OWNERS

As we have testified, during the first three years of operation, the corporation experienced losses, however that trend was reversed after the schools' participation in the student loan program. Moreover, a review of salaries and benefits to the corporation's officers, the Calaresos, also revealed handsome profits for the owners.

YEAR ENDING	PROFIT TO CORP AFTER ALL EXPENSES	SALARY/STOCK DIVIDENDS (JOE AND JIM CALARESO)
5-31-1983	($33,561)	
5-31-1984	($18,402)	6-1-83 - 5-31-84/$14,531
5-31-1985	($90,926)	1985/$218,000
5-31-1986*	$175,955	
12-31-1986**	$2,273,276	1986/$2,242,400
12-31-1987	$2,279,506	1987/$2,467,240 + $1,993,500
12-31-1988	$3,828,587	1988/$2,060,000 + $1,049,667
12-31-1989	$827,433	1989/$1,047,408 + $1,276,385
		TOTAL: $12,369,131

* five month period
** seven month period

Our analysis of the Executive Officers salaries over A.C.T.'s existence shows that as revenues significantly increased with participation in the federal student loan program in mid 1985, there was a corresponding drastic increase in the in the Executive Officers' salaries. The Executive Officers were Joseph Calareso, President, and James Calareso, Vice President. Joseph Calareso's 1985 salary was $129,000 and James Calareso's salary was $89,000. In the following year of 1986, the salaries rose astronomically with Joseph and James Calareso each receiving $1,121,200. The increases represented approximately 770% for Joseph Calareso and 1,160% for James Calareso.

During the following two years, salaries for each Calareso continued at over a million dollars annually and were approximately $1.23 million and $1.03 million, respectively. During 1989, the salaries decreased to $533,804 for Joseph and $513,604 for James. Over the course of the four year period of 1986 through 1989, the total salaries received by Joseph and James Calareso exceeded $7.8 million.

As the only stockholders of the corporation, the Calaresos' received other benefits in addition to their salary costs which averaged $1.95 million during 1986 through 1989. Beginning in 1987 the Calaresos' received additional income from the corporation through Stockholder Distributions. They also received $168,500 of funds in 1987 through Loans to Stockholders. Our analysis of A.C.T.'s accounting records showed that these additional benefits were approximately $2 million for 1987 and exceeded $1 million for both 1988 and 1989.

For 1987, the benefits received from the corporation by Joseph and James Calareso in the form of salaries and stockholder distributions were $4.3 million. The benefits received by the Calaresos' were $3.1 million for 1988 and $2.3 million for 1989. Including the salaries from 1986, the total benefits realized by the Calaresos' from 1986 through 1989 approached $12 million.

3. A VERY LOW PERCENTAGE OF THOSE WHO ENROLL AND RECEIVE STUDENT AID EVER GRADUATE FROM THE SCHOOLS.

The staff has determined that a very low percentage of those students enrolling in A.C.T. actually graduate. During the preliminary phase of this investigation, we were told that fewer than 20% of those enrolled in A.C.T.'s courses actually graduate from the courses offered.

An October 1989 review of A.C.T. by its accrediting agency, the National Home Study Council, estimated that only 18 to 20% of the school's students graduate. Florida's state licensing files relative to A.C.T. disclosed:

Beginning enrollment July 1, 1987:	16,420
New Students (travel and Hart) Entering:	16,836
Voluntary withdrawal:	1,469

Dismissal:	0	
Graduates:	4,052	(3,363 placed)
Ending enrollment June 30, 1988:	27,735	

Joseph Calareso provided the staff with the following information:

	1987	1988	1989
Students in Course	9,404	19,027	20,924
Students Completing	2,787	5,844	not available
	30%	31%	

Our analysis of subpoenaed school records show that, for FY 1986 through FY 1989, 47,254 A.C.T. students received federal student loans, but only 7,679 students completed the program through residential training, or 16%.

4. A.C.T. DEFAULTS ARE LIKELY TO INCREASE AS LOANS COME DUE

As indicated in testimony last week, the Department of Education, based on data provided from the 56 Guarantee Agencies, annually produces a list of default rates of the schools participating in the guaranteed student loan programs. This list, known as the COHORT default list, indicates the school, the number of loans to students entering repayment status for that year, and the percentage of default claims paid by the Department to guarantors.

The Department's latest available data is 1987. In that year, of the 2,039 A.C.T. students entering repayment status, 23.2% were in default. You will recall, that in last week's testimony before the Subcommittee, representatives of GAO testified that when a default rate exceeds 20% a school is now required to develop a default management plan.

Our investigation revealed that the number of defaults for A.C.T. loans is very likely to substantially increase in the future. Generally, loan periods are for one year, followed by a six-month grace period. The 1987 default data is, therefore, most likely based on 1985 loans, when total loan volume for the school was only 2,048. As previously stated, loan volume increased substantially over the next few years. Given the low graduation rate and other factors, it is likely that, as more loans come due, defaults will substantially increase.

Moreover, in last week's testimony, we cited several examples of obviously erroneous addresses for A.C.T. students in guarantee agency records. In the summer of 1989, PHEAA, the Pennsylvania guarantor which now holds $69.3 million in loans to A.C.T. students, sent a questionaire to a small random sampling of A.C.T. students having loans guaranteed through PHEAA. Over 50% of the questionnaires mailed were returned by the Post Office either unopened, marked address unknown, no forwarding address or address does not exist. Other guarantors are reporting similar problems in locating students.

For instance, in August, 1989, the Massachusetts guarantee agency attempted to telephone 50 A.C.T. students who held loans that had originated within the proceeding six months. Only two "students" could be contacted. One of the two said she had never heard of A.C.T. The other 48 telephone numbers either did not exist or were not assigned to the student name indicated in the file. Aside from raising questions of fraud and abuse, this type of clearly inaccurate location data on students suggests will be extremely difficult to collect on defaulted loans in the future.

5. VERY LITTLE OF ACTUAL PROFITS ARE REINVESTED IN THE SCHOOL

Our review of A.C.T. financial records disclosed that very little of actual profits are reinvested in the school, making future recoupment of any potential liability in the student loan program difficult. As A.C.T's revenues increased significantly over the years, there was also a corresponding increase in both the amounts and types of expenditures. We performed a detailed analysis of A.C.T.'s cash disbursements for the past three years to identify large and frequent disbursements. Many of the expenditures were general and administrative related to the operation of the school, however, there were also expenditures for what appeared to be investments and some questionable items.

We classified expenditures which appeared to be investments as disbursements to Money Market accounts, Trust accounts and Insurance companies for policies on the Officers' lifes. Examples of these types of disbursements from A.C.T.'s operating accounts are as follows:

-- On June 21, 1988, a $200,000 payment was made to the Northern Trust Money Market asset account.

-- From November 3, 1987 through October 31, 1989, there were a total of 12 payments for $132,382 made to the Manufacturer's Hanover Trust Company and recorded in their accounting records as a asset.

-- On April 20, 1987 there was a $113,152 payment made to the Mutual Life Insurance Company and accounted for as accrued profit sharing.

-- During 1987 through 1989 there were payments totaling $220,096 made to the New York Life Insurance Company which were accounted for as insurance on officers' lives.

In addition to investments as described above, A.C.T. made increased disbursements for rent and real estate expenditures. The Calareso's had diversified their holdings and began leasing building space from their Calareso Real Estate Partnership. From November 2, 1988 through December 8, 1989, payments totaling $445,200 were made to Calareso Real Estate Partnership from A.C.T.

From our analysis of cash disbursements from 1987 through 1989, there were other expenditures which we determined to be questionable as to either their propriety or large amount without sufficient evidence to the source of payment or nature of the expenditure. Examples are as follows:

-- For the three year period monthly charges to the travel account and subsequent payments to the American Express Company totaled $537,384.

-- On July 28, 1988 and again on December 1, 1988 there were payments made to Sun Bank and accounted for as distributions with little description. The first payment for $220,620 was described as "Sun Bank - Closing on M", while the second payment for $308,444 was described as "Sun Bank - Cashiers Check".

-- From 1987 through 1989, there were numerous disbursements exceeding $600,000 in total from various accounts for which the payee in the cash disbursements journal was listed as miscellaneous.

-- During 1987, payments of $98,283 were made to Caribank Leasing on a Note payable.

-- On May 31, 1988 there was a $100,000 disbursement accounted for as a distribution, however, there was no payee listed in the cash disbursements journal.

-- On March 4, 1987 there were four payments charged to the loans to stockholders account, however, the payee's were Crossing at Green Valley for $17,316 and Reflections for $25,490.

-- On March 24 and December 21, 1989, there were four payments totaling $84,427 accounted for as entertainment with the payee listed as miscellaneous.

6. A.C.T. FAILED TO MAKE OR SUBSTANTIALLY DELAYED REQUIRED REFUNDS OF STUDENT LOAN FUNDS IN CASES WHERE STUDENTS HAD WITHDRAWN OR BEEN CANCELLED

Our review and the program reviews conducted by the guarantee agencies disclosed that the school may have a tremendous refund liability because the school has generally either not made or substantially delayed required refunds to lenders for the tuition of cancelled or withdrawn students.

Applicable federal regulations (34 CFR 682.605, 606 and 607), require that: (1) "A school shall have a fair and equitable refund policy under which the school shall make a refund of unearned tuition..."; (2) "A school shall pay each refund that is due within 30 days after the date of the student's withdrawal from the school..."; and (3) "if the student is enrolled in a program of study by correspondence, the student's withdrawal date is normally 60 days after the due date of a required lesson that the student failed to submit in accordance with the schedule of lessons..."

The school is required to refund to the lender any amount of unused tuition for students who do not complete the training offered. Mr. Chairman, I submit for the record a copy of an A.C.T. contract, and draw your attention to the reverse side of the form, REFUND POLICY and FAILURE TO COMPLETE COURSE.

As confirmed to us by A.C.T. employees, the school's longstanding practice was not to make refunds within 90 days of the last activity date of the student, as required, but rather to delay review of the file until one year after the enrollment date; and to then cancel the student, if appropriate. Under the contract, the school had no liability for any refund as of one year from the date of enrollment, absent written concellation by the student.

According to our review of student files as well as testimony you will hear this morning, in numerous cases the school made no refund, even though a student did not complete the homes study or in-resident portion of the training. This practice was clearly wrong. Even if the school made a proper refund after a year's wait, which we believe it did not in most cases, the school was able to collect interest on the improperly held money.

For example, in the case of Angela Jones, a witness who will testify shortly, the student did not receive all of her correspondence materials on a timely basis, and therefore was unable to complete the course on time.

As evidenced by this student's file, the student enrolled in September 1987, but completed only nine of the twenty lessons, sending in the last lesson on February 26, 1988. Therefore, the school, within 90 days of receiving the last lesson, should have sent $1095 of the $1695 tuition to the lender as a refund. In this case, the school made no refund whatsoever, leaving the student responsible for the entire $2625 loan. Moreover, in our initial review of a sample of student files at A.C.T., over 40% of the files selected revealed that refunds had not been made as required.

Joseph Calareso admitted to the staff that A.C.T. may have a refund liability as high as $9 million. Others familiar with the school's operation have estimated the refund liability may be several times that amount. In addition to the amount of the refund itself, the school's actions caused the Department of Education to continue to pay interest and special allowance on that money to the lenders that the Department would not have had to pay had the refund been properly made. Moreover, the school collected interest on, or otherwise used that money to its use.

In addition to not making refunds to students who had guaranteed student loans, we also found examples of students who had paid cash for the course but received only partial refunds: In the case of Anne Marrocco, a former student residing in Georgia, Marrocco enrolled in the travel school on October 6, 1987. Marrocco paid the $1,645 tuition in cash, completed one-half of the correspondence program (lessons 1-10), sending in her last lesson on December 11, 1987. Marrocco wrote to the school, notifying the school of her wish to withdraw on January 3, 1988, and the school reimbursed Marrocco $495.00; only the resident portion of the course. No refund was issued for the $600.00 (one-half of the correspondence tuition). It is important to note that the government - state and federal - has no way to assist the cash paying out of state student. The Department of Education and the guarantors are only interested in federal aid recipients and the State reviews only the files of Florida students.

As will be further described below, recent program reviews by guarantee agencies and A.C.T.'s accrediting agencies, have also uncovered problems in the school's refund policy. In one case, A.C.T., at the direction of the Higher Education Assistance Foundation (HEAF), has reconstructed the student aid files of loans guaranteed by HEAF. To date, A.C.T. has reimbursed to HEAF almost $1 million in refunds on past loans. HEAF is to compute and advise A.C.T. of the amount A.C.T. must render to the Department of Education for special allowance and interest the Department had to pay on the previously unrefunded amount.

7. THE SCHOOL HAS SUBMITTED STUDENTS FOR FEDERAL STUDENT AID WHO DO NOT HAVE AN ABILITY TO BENEFIT FROM THE TRAINING, AS REQUIRED BY FEDERAL REGULATIONS

Applicable federal regulations require that, to be eligible for a guaranteed student loan in a proprietary school, a student must have a high school diploma or its equivalent or have the ability to benefit from the training being offered. Under the regulations, ability to benefit can be shown by (1) administration of a nationally recognized, standardized, or industry-developed test; (2) receipt of a GED before the earlier of the student's graduation or the completion of one year of the program; or (3) enrollment and successful completion of a remedial program prescribed by the institution.

In the case of A.C.T., our investigation revealed that A.C.T. had procured federal student loans for students who had no high school diploma and who had not demonstrated an "ability to benefit," as defined by the regulations.

Mr. Chairman, I offer as an exhibit to the record a copy of the school's Personal Qualification and Profile Form. This form is designed to be filled out by the enrollee during the visit by the school's sales representative. Based on the information provided by the student, the commissioned salesman determined if the applicant has the ability to benefit.

In Block II of the form, there are questions pertaining to the applicant's education. It was the school's longstanding policy to admit students who did not have a high school diploma or G.E.D., as long as the student certified that he/she was in the process of obtaining one.

On the reverse side of the form, you will note a section to be completed by the sales representative, certifying that the applicant has an ability to benefit.

Our check of student files also disclosed that the school had been enrolling students who did not possess high school diplomas or GED certificates. Moreover the school, did not verify the claims of students that they were diploma or certificate holders. Our review of student files at the school disclosed several files for applicants who did not possess either a high school diploma or GED certificate at the time of enrollment. In some cases the forms indicated that the students were in the process of completing a GED and their expected completion date was listed only as "ASAP." The Subcommittee will receive testimony later this morning regarding those types of cases.

Further, the school enrolled students based on the sales representative's certification that the student had the "ability to benefit" from the responses during the sales pitch meeting. According to a former representative of A.C.T. that we interviewed, no written test has ever been used by the school when making this determination of an ability to benefit and students without a demonstrated "ability to benefit" were not offered or referred to remedial training.

I submit for the record a copy of an A.C.T. student file. We have deleted the identifying information from the file. This student was enrolled on May 1, 1989, paid $10.00 cash, and the tuition was paid in full on June 25, 1989 from a guaranteed student loan. This student completed seven lessons— according to the log maintained in the file, the last one was received on August 29, 1989.

This student did not possess a high school diploma or GED, but the file indicates she was in the process of completing such. If you look closely, the handwriting in the blocks answering those questions appears different from the other entries on the form.

You will notice as you look through the file that the student repeatedly failed the tests, despite the high grades listed on the school's log at the front of the file. This student was cancelled from the programs but there is no indication that a refund was made.

The school's director of education did tell the staff that, although rare, there are some students that the instructors feel are incapable of successfully completing the coursework. They are sent home prior to completion of the in-residence portion of the training. The director cited an example of a severely dyslexic person who was dismissed. The director, when asked, said the field representative makes the determination whether a student has the ability to complete the program.

A review of the initial application to the Department for certification of the A.C.T. Travel School disclosed that the application was dated March 11, 1985, and signed by Joseph Calareso.

On the application, Calareso answered the following question in the negative:

> "Does the institution admit any students without a high school diploma or the recognized equivalent (G.E.D. Certificate) for the purpose of obtaining a degree or certificate."

The next question on the application is:

> "If yes, does the institution determine whether these students have the ability to benefit from the education or training offered?"

And the next:

> "If yes, attach a copy of the criteria for determining whether these students have the ability to benefit from the training offered."

The last two questions are unanswered on Calareso's application.

This application was the basis for certification by the Department of Education for A.C.T. to be eligible to participate in the guaranteed student loan program. Despite that application, our investigation revealed that A.C.T. did, in fact, enroll students who did not possess either a high school diploma or G.E.D. Certificate, and that those students received guaranteed student loans.

Today, in light of the criticism recently received from program review officials, A.C.T. has changed its policy on enrollments. Now, according to Joe Calareso, A.C.T. only accepts students who possess a high school diploma or GED.

8. THE EVIDENCE SUGGESTS A LACK OF EMPHASIS AT A.C.T. ON THE TRAINING OF STUDENTS; MOST ENERGY AND EMPHASIS IS CENTERED ON ENROLLING STUDENTS, NOT GRADUATING THEM.

As testimony by other witnesses this morning will confirm, our investigation found that the school's emphasis is not centered on the successful completion of the program by students, but is focused instead on procuring new enrollments.

Mr. Chairman, I would like to submit as an exhibit a copy of a memorandum from John Wash, A.C.T.'s supervisor over admissions, or sales, representatives to all admissions representatives. This memorandum is a compilation of advertising and sales ideas for the sales representatives to use. I would like to draw your attention to just a few items:

> 8. Drive through large housing projects SLOWLY with door sign on. Best times are Friday afternoons and Sunday afternoons.
>
> 21. Meet the managers of low income and government housing apartments. Give group presentation.
>
> 37. College career days on black campuses.
>
> 44. Food stamp offices - leave referral cards.
>
> 45. Welfare offices - leave referral cards.

The Subcommittee Staff also contacted students who had withdrawn from A.C.T. We wanted to learn of their experiences. Briefly, these students characterized themselves as misguided persons who had fallen on hard times. They were looking for ways to better their financial, educational, and employment positions and now feel that they became the prey of the proprietary school industry. Salesmen presented a glorified picture of the life that they would lead after attending A.C.T. Additionally, they were told that the Government would back them financially in this "wonderful," life-changing endeavor. These students have experienced an outcome to their story quite different from the one portrayed by the sales representative: they now have substantial student loans to repay, the threat of defaulting on their loan, and no educational benefit to present to society or the labor force. We do not believe these students to be the exceptions.

The Staff also contacted a number of A.C.T. graduates to find out about their experiences with the school and to be sure the responses we were getting were from a representative sample of the entire student population. Graduates' opinions of the school varied from one extreme to the other. Some of these students were appropriately employed in the industry for which A.C.T. had trained them; others said they were unable to find such jobs. Some graduates said A.C.T. had truthfully portrayed itself; others disagreed.

Our review of the school's actual operations also suggests a lack of emphasis on training and education. The courses offered by the school are combination home-study and in-residence. Correspondence lessons are graded and returned to students by telephone receptionists, not instructors. As a former student will testify today, those who call in with questions concerning course work were not counselled by instructors, but told to answer the questions to the best of their ability. For both schools, there are only twenty three employees listed as instructors. By contrast, the schools employ approximately 109 commissioned sales representatives.

Moreover, the operations of the student financial aid section are quite sophisticated, with over seventy employees processing scores of new loan applications per day.

The financial aid office is divided into ten sections, each having a specific duty to perform. A current employee of the school told the staff that, on an average day, up to 100 loan applications are completed and sent to enrollees. Loan counselors receive information from students by telephone, complete the loan forms which are then mailed to the student for signature. Today, students receive applications for both Stafford and Supplemental Loans, already completed by school employees, to sign and return to the school.

During the staff's visit to the school in January, we were also told about several contests that have been held in the financial aid section. Employees are rewarded with prizes for the highest number of loan applications processed during the contest period.

Receptionists are also rewarded for handling the highest number of telephone calls, and sales representatives participate in ongoing contests for the highest number of students enrolled. No one we spoke with was aware of any contests held among the instructional staff or the placement office staff.

Finally, our review of A.C.T. financial records revealed that training and education expenses were dwarfed by advertising and sales costs. Our analysis of corporation expenses during the period 1986-1989 revealed that in FY 1986 instructors salaries were $72,253 or 1.3% of revenues and advertising was $384,583 or 7.0% of revenues. For 1988, Instructors salaries increased to $468,079, representing 1.4% of revenues. During the same year, Advertising increased to $11,004,410 which was a significant

33.8 % of revenues. Classroom materials for FY 1986 were .4% of revenues and decreased to .3% of revenues in 1989. In FY 1986 there was no salary category for Admission Representatives which totaled $5,935,746 or 17.2% of revenues in 1989.

In its October 1989 review of A.C.T., the National Home Study Council (NHSC) found that course materials were "too simplified to expect graduates to be prepared for more than an entry level position" and that "the home study portion of the courses seems to hav~~e minima~~l educational services." In responding to the NHSC finding that only a small percentage of students graduate, Joseph Calareso attributed this to the high cost of the residential program, and not to any deficiencies in training. Calareso told the NHSC "...realistically, graduation rates will only improve if students can access additional forms of student assistance, such as a Pell grant or an institutional loan."

9. LACK OF OVERSIGHT: TOO LITTLE, TOO LATE

Our investigation revealed that, at every level in the system, there was inadequate oversight of A.C.T.'s participation in federal student loan programs.

Where there has been oversight it has come very late in the game, after millions of dollars in federally backed loans have been issued to A.C.T. students.

THE DEPARTMENT OF EDUCATION'S REVIEW OF THE SCHOOL WAS INADEQUATE

In January, we visited the U.S. Department of Education Region IV in Atlanta, Georgia, the office having jurisdiction over schools in Florida. We found that Region IV had conducted a program review of A.C.T. in October, 1988. We have submitted a copy of that review for the record. As you can see, the Department made only minor findings during that program review. We believe the testimony from a former A.C.T. employee this morning will explain, to some degree, why only a few, relatively minor problems were detected.

In looking at the October, 1988, program review conducted by Region IV, the Staff again visited Regional headquarters in Atlanta to discuss methods of review and findings at A.C.T. Interviews there disclosed that the program review officer, while a seasoned employee with an extensive background in education, had never reviewed a correspondence school and was unfamiliar with the requirements fitting the institution's student financial aid eligibility at the time of the A.C.T. review. Officials noted that at the time of the 1988 review, no one in the Institutional Review section of the Regional Office had ever reviewed a correspondence school. The reviewer admitted not knowing how to address the school's default or withdrawal rates, that she did not hand-pick the student files reviewed, that she did not interview students or faculty, and that she did not report what she considered inadequacies in the academic environment. Neither did she report her suspicions related to the extremely high increase in enrollment over just a year's time and the extremely high percentage of students receiving federal student loans. Further, the program review did not disclose serious questions regarding the eligibility of the secretarial school.

At this point I want to point out that the Department's response to our initial request for the program reviewer's school file underscores some of the criticisms we had heard about miscommunication, poor management, and lack of adequate data within the Department. We requested the Department's regional file on A.C.T. on January 9, 1990. After a week, we called the regional office and were told the staff there could not locate the file. Finally, on February 12, 1990, the regional office located the file and provided a copy to the Subcommittee.

I would also point out that while the Region IV review in 1988 did find some minor irregularities in A.C.T. operations, Joseph Calareso, in responding to subsequent adverse findings by the National Home Study Council, described the Region IV review as "an extremely favorable report."

OVERSIGHT FROM GUARANTORS OF LOANS BETTER, BUT SOME ARE HESITANT TO TAKE ACTION

Of the 20 guarantee agencies that we contacted, 15 had guaranteed loans to A.C.T. students. Of those, only four - Florida, Higher Education Assistance Foundation, Philadephia Higher Education Assistance Authority, and Massachussetts - had accomplished program reviews of the corporation's two schools, one occurring in 1988 and the remainder in 1989.

Collectively, the guarantee agencies have found:

* There is a severely impaired capability for administration of Title IV funds (Pennsylvania)

* Lack of proper refunds due withdrawn students (refunds due to students within 30 days of withdrawal, or at the point a student's status is less than half-time status) (Pennsylvania, Massachusetts, Florida, HEAF)

* Inadequate monitoring of enrollment status (At least half-time enrollment status is required for receiving Stafford Loan.) (Pennsylvania, Massachusetts, Florida)

* Ineligible program by correspondence (One-year allowance period for completion of 300 hours does not meet the required 12 hours of preparation per week over each 12-week period.) (Pennsylvania, Massachusetts, Florida)

* Ability-to-benefit requirements not met (Pennsylvania, Massachusetts, Florida, HEAF)

* Satisfactory progress policy not enforced and/or is inadequate (Pennsylvania, Massachusetts, Florida, HEAF)

* Lack of needs analysis verification of 30% of student loans processed (Pennsylvania, Massachusetts, Florida, HEAF)

* Improper system for needs analysis requirement (Pennsylvania, Florida, HEAF)

* Dependency status not documented properly (HEAF)

* Program changes not approved by appropriate officials (Massachusetts)

* Incorrect loan term dates (Pennsylvania)

* Students' loan proceeds improperly credited to their accounts (Pennsylvania)

* Incorrect certification of Stafford Loan application (School official certified the application as true and correct when there was no documentation to support certain criteria.) (Pennsylvania)

* Failure to obtain certification statement of prior defaults in Title IV programs (Pennsylvania, Florida, HEAF)

* Lack of ability to determine enrollment status (Pennsylvania)

* Out-of-school notification to lenders or guarantors, for repayment plan purposes, not being practiced (Pennsylvania, Massachusetts, Florida)

* Improper loan certification for non-approved courses of study (Pennsylvania, Massachusetts)

* No schedule for submission of lessons (Massachusetts, HEAF)

* Excess proceeds retained without written authorization (Pennsylvania, Massachusetts, Florida)

* Improper determination of student cost of attendance budgets (Massachusetts)

* Certification of applications for participation in the PLUS Loan and Supplemental Loan to Students Program, which had been denied the school by the Secretary (Massachusetts)

- Excessive withdrawal rate (above 33%) (Pennsylvania, Florida)
- Excessive default rate of more than 20% (Florida)
- Loans not disbursed in multiple installments (Florida)
- Incorrect reporting of loan periods and expected family contribution (Pennsylvania, Florida)
- Failure to perform exit counseling (Florida)
- Unexecuted enrollment agreement (Florida)
- Failure to obtain Selective Service Registration compliance statements (Florida)
- Use of commissioned salespersons to promote the availability of Title IV loan programs (Florida)
- Misrepresentation of U.S. Department of Education regulations (HEAF)

Following the 1989 audits by the previously mentioned guarantee agencies, Joseph Calareso told us that he "shut down the financial aid operation for two weeks and revamped everything." He says he has since hired two consultants, who are "experts in Title IV programs," one of whom was previously with the NHSC. Calareso said he took this action to get his operation in line with the regulations.

As we pointed out in last week's testimony, certain guarantors are hesitant to "pull the plug" on a school, especially if the school has substantial liabilities to the guarantor. If the guarantor is too harsh with the school, the guarantor may never recoup the money it has identified as owed. So, it seems there is an incentive to keep the school in operation and permit it to continue to participate in the federal aid programs, so the agency can get its money back.

In the case of A.C.T., despite the adverse findings listed above only two guarantee agencies have begun "emergency action procedures" to suspend guaranteeing additional loans to A.C.T. students. A.C.T. continues to receive guaranteed loans through other agencies.

One guarantee agency expressed concern about our investigation, fearing the subcommittee's inquiry would spur on harsher action against A.C.T. than it would have received were we not involved. ,

OVERSIGHT BY THE STATE: A DIFFERENT ROLE

As we reported in last week's testimony, state licensing boards license and review schools based on their jurisdiction as identified by State law; they do not conduct oversight on the school based on federal financial aid regulations.

In the case of A.C.T., the Florida guarantee agency notified the State licensing board of the agency's adverse program review findings, and the State launched an independent investigation of the school to determine if the school was operating within the bounds of State law. Today, the school's license is "under review" by the state pending the results of the investigation. The State is, among other things, investigating the courses' length, because the school had increased the clock hours of both courses without the Board's approval. Moreover, the school is scheduled to reconstruct loans guaranteed by Florida, and to make refunds to the guarantee agency.

INDEPENDENT NON-FEDERAL AUDIT REVEALS NOTHING WRONG

The corporation was audited by the CPA firm Barton and Gordon of Jacksonville, FL, in June 1988. On January 18, 1989, the firm reported:

> "We have performed the audit tests required by the Student Financial Assistance Programs, Audit Guide, issued by the U.S. Department of Education, Office of Inspector General, Office of Audit, dated May 1988 as they relate to the Stafford Loan Program of American Career Training Corporation for the period from July 1, 1986 to June 30, 1988."
>
> "In our opinion, the Institution administered the Stafford Loan Program in compliance, in all material respects, with laws and regulations."

Mr. Chairman, David Barton personally conducted this required non-federal audit. A subsidiary of Mr. Barton's CPA firm, JV and Associates, which is co-located in Jacksonville, is the consulting firm that helped establish the A.C.T. financial aid office. Given that fact as well as well as our findings and those of the guarantee agencies, we question the independence and the quality of the audit.

ACCREDITING BODY REVIEWS OPERATION EVERY FIVE YEARS: "A.C.T. IS NOT THE SAME SCHOOL TODAY THAT WE VISITED IN 1984"

The National Home Study Council accredited the A.C.T. travel school in 1985. A copy of the NHSC Chairman's report is offered as an exhibit to the record.

Since NHSC is a non-government body, it sets its own rules on reviews and reaccreditation, requiring them only once every five years. In a required update, completed in January, 1990, of the original accreditation of A.C.T., the Accrediting Commission of the National Home Study Council deferred action on A.C.T.'s application for re-accreditation. A copy of the NHSC Chairman's report is also submitted for the record. The Commission decided that A.C.T. needs time "to achieve successful experience with its announced and recently implemented changes and to verify compliance with the stipulations for continuing accreditation" listed in its January 18, 1990 letter to the school's president, Joseph Calareso. In this same letter, the Commission's Executive Secretary, William A. Fowler, said that they were "deeply concerned about the continuance [of A.C.T.] as a successful, viable institution operating within the letter and spirit of the [NHSC's Business] Standards."

The Commission's decision to defer A.C.T.'s application for re-accreditation was based on an examination report, the school's response to that report, and other relevant documents and materials. Among the major findings cited in these various sources are:

-- 70% of those who enroll in A.C.T.'s Travel and Secretarial Courses qualify for Federal aid and begin the course;

-- 50%-55% of those enrolling complete the home study portion of the programs and about 20% come to resident training;

-- only 20% of those enrolling actually graduate;

-- a very significant contingent liability, not reflected on A.C.T.'s balance sheet, exists for the school because of its heavy (95-100%) reliance on Federal financial aid. A.C.T. treats guaranteed student loan proceeds as revenue, with no reserves established per NHSC Business Standards. Therefore, the school's financial statement declaration of a $3.4 million profit could instead actually entail an actual loss of a like amount, particularly in view of the low percentage of students completing the programs;

-- A.C.T.'s financial statements fail to demonstrate that refunds are being made on a timely basis, in accordance with NHSC Business Standards and U.S. Department of Education rules;

-- A.C.T.'s tuition structure and fees are not fairly distributed for each portion -- i.e., home study and resident -- of the courses, as recommended per Commission policy. Tuition fee ratios presented to the Commission by A.C.T. in its September, 1985 Progress Report called for allocating at least 33% of the total amount to the resident training component of each combination course. According to the Commission's recent

Examining Committee Report, only 9% of the current tuition fee is allocated for the resident training component. The Commission sees such "front end loading" of tuition as violating the spirit of NHSC Business Standards, since it obligates a student for a debt of nearly $2,000 for having completed only 11 or more home study assignments. To be employable, according to the Commission, a student must complete the resident training and without this training, there is little to show for the debt incurred. The significance of this problem is underscored by the fact that only 20% of A.C.T. students actually attend the resident portion of the course.

-- the Commission Examining Committee Report cites numerous instances where A.C.T. advertising and promotion activities fail to comply with either NHSC Business Standards or NHSC Standards of Accreditation. For example, the training manual used by the school's field representatives contains numerous statements referring to NHSC accreditation and to endorsements that appear to have no factual basis.

Accreditation by a nationally recognized accrediting agency is a requirement for a postsecondary institution to participate in the guaranteed student loan program by the Department of Education. A.C.T. is accredited by the National Home Study Council (NHSC) which received large payments from A.C.T. for their accreditation. A.C.T.'s membership fees for the past three years were $28,233 for 1987, $32,777 for 1988, and increased to $39,422 for 1989.

The Staff has reviewed the files maintained by the National Home Study Council relating to the accreditation of A.C.T. The NHSC officials whom we interviewed maintained that A.C.T., as it exists today, "is not the same institution" it accredited in 1985.

EVIDENCE OF ERRONEOUS INFORMATION IN INITIAL APPLICATIONS FOR CERTIFICATIONS

Prior to a postsecondary institution participating in the Guaranteed Student Loan (GSL) program, the institution must first be certified by Department of Education as to its financial responsibility. A.C.T. submitted their Application for Certification for the travel school to the Department on March 11, 1985, signed by Joesph Calareso.

In addition to the questionable statements regarding ability to benefit previously discussed, a review of that application raises serious questions about its representation of A.C.T.'s financial condition.

Along with the application, Calareso submitted a Statement of Revenue and Retained Earnings for the twelve month period ended December 31, 1984, prepared by Pannell Kerr Forster, C.P.A.'s as part of a Review Report. The statement indicated that A.C.T. had a $152,466 net operating profit before income taxes for 1984. Based on this information, the Department certified A.C.T. as financially responsible and A.C.T. began participation in the federal student loan program in May 1985.

Our review of financial records produced by Calareso pursuant to Subcommittee subpoena disclosed that during 1984, A.C.T also employed another public accounting firm to prepare monthly Statements of Revenue and Expenses. Pollak, Koross, Reiss & Associates P.A.'s prepared the statements as part of monthly Compilation Reports for A.C.T. The aggregate totals for 1984 from the monthly statements reflected A.C.T. as having a ($21,468) net operating loss before income taxes for 1984. The discrepancy between the two different net figures for 1984 could not be readily determined through our analysis of the records provided. However, the information provided to the Department by A.C.T. as to their financial responsibility was considerably more favorable in reflecting A.C.T. as a profitable entity.

Department officials advised that if the financial data submitted to the Department in 1985 was false, the Department would have sufficient cause to determine that the certification itself was invalid. If that is the case, any guaranteed student loans made under the authority of that certification would be the ultimate responsibility of the school itself.

In September 1987, the HART School for Professional Secretaries was certified and determined eligible by the Department of Education to participate in the guaranteed student loan program. This determination was based solely on an application made by Mr. Joseph Calareso, in which he informed the Department that the course was accredited by the National Home Study Council. In the application, Calareso certified the school's clock hours to be:

correspondence:	279 hours
in residence:	120 hours

Because the course was reportedly accredited by the National Home Study Council and the clock hours were over 300 total, the program was approved for participation.

In reality, the full course had not been accredited when Calareso made his application to the Department. In fact, the in-residence training site was not approved by the National Home Study Council until January, 1989.

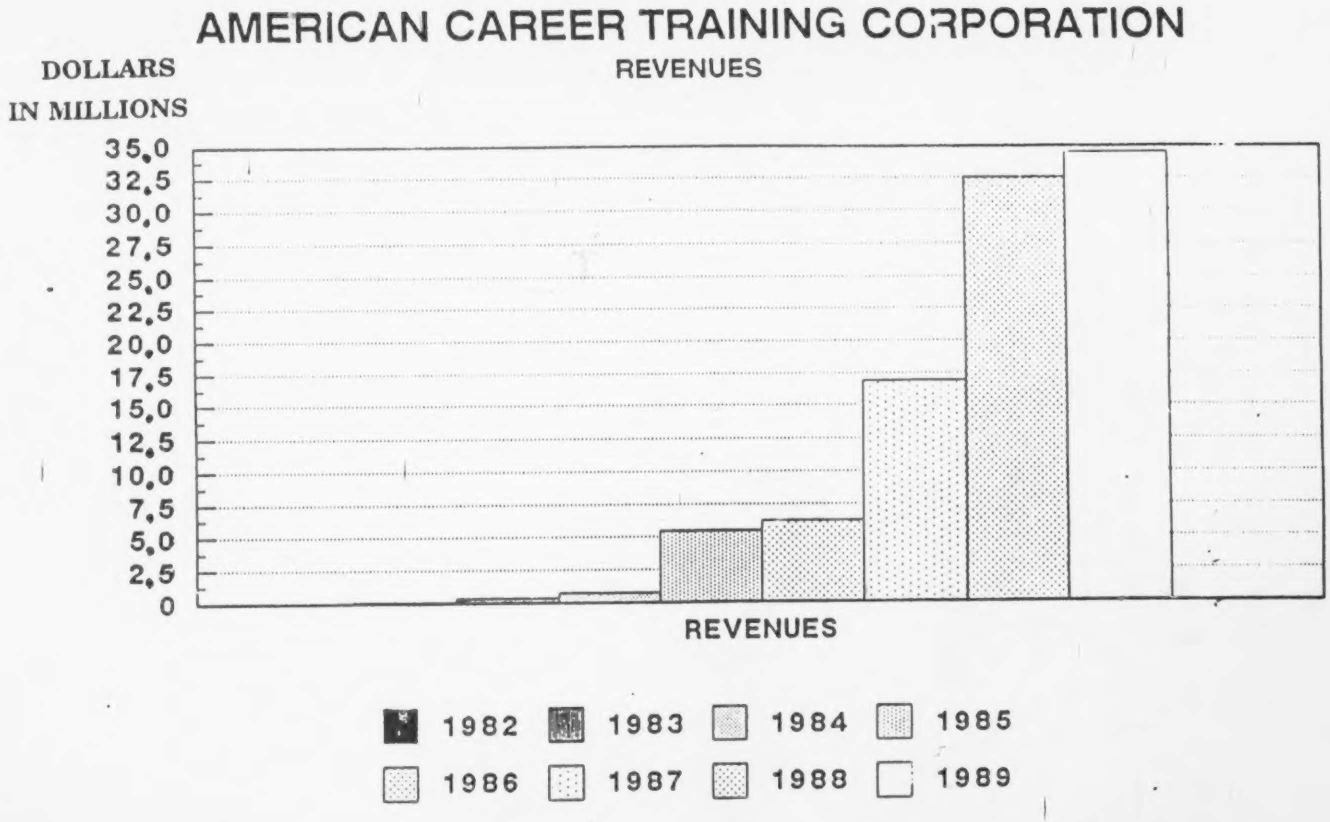
Our investigation revealed that while the Hart program was in its early stages of operation, officials at A.C.T. may have wrongfully obtained federal financial aid for those students by misrepresenting that the program was fully accredited to the Department of Education. Correspondence between the school and NHSC show that NHSC had accredited a only "pure" correspondence course in June 1987, bu did not include and accredit any in-residence program.

The Department of Education has in its files an application for eligibility from A.C.T. which addresses the issue of obtaining federal financial aid for students under the HART program. Department officials explained that the application was accompanied by a letter detailing the number of clock hours for both a "home-study" segment and a "resident" segment of work. The combination of 279 clock hours for the home-study work and 120 hours for the resident work would have satisfied the 300 clock hour requirement for aid. There was also, accompanying the application, a letter dated June 11, 1987, from NHSC approving the secretarial course.

According to NHSC, the accrediting body had approved on June 11, 1987 a secretarial course, but was not aware of A.C.T.'s plan for a resident portion of the program and therefore did not address it in its letter of recognition. The 279 hours for the home-study portion alone would not have qualified A.C.T. for federal student aid. According to the National Home Study Council, no one from the Department of Education has ever contacted NHSC to attempt to verify HART's accreditation.

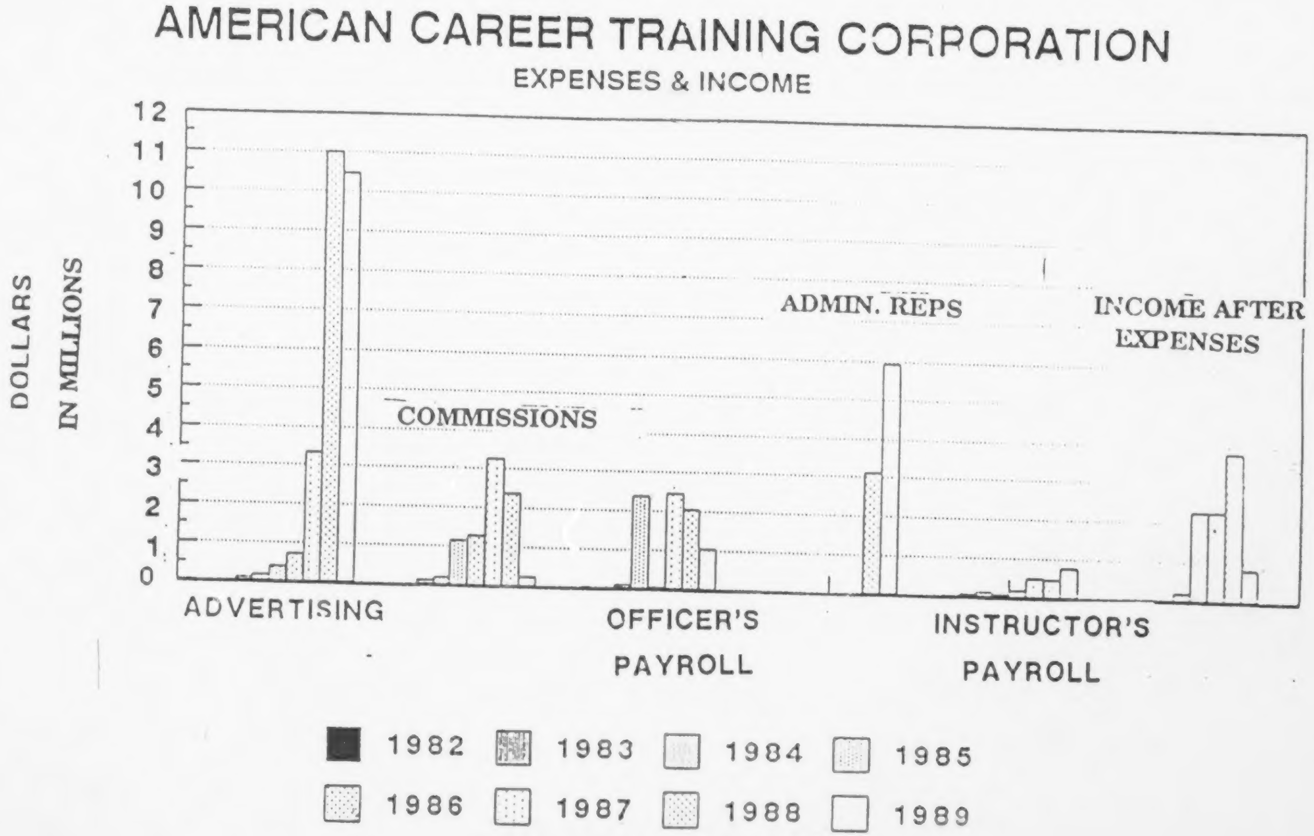
As a result, A.C.T. did obtain loans for students in the HART program prior to the combination program being accredited and prior to having enough clock hours to meet eligibility requirements for aid.

Mr. Chairman, that concludes our findings. We would be happy to answer any questions you or other members of the Subcommittee may have.



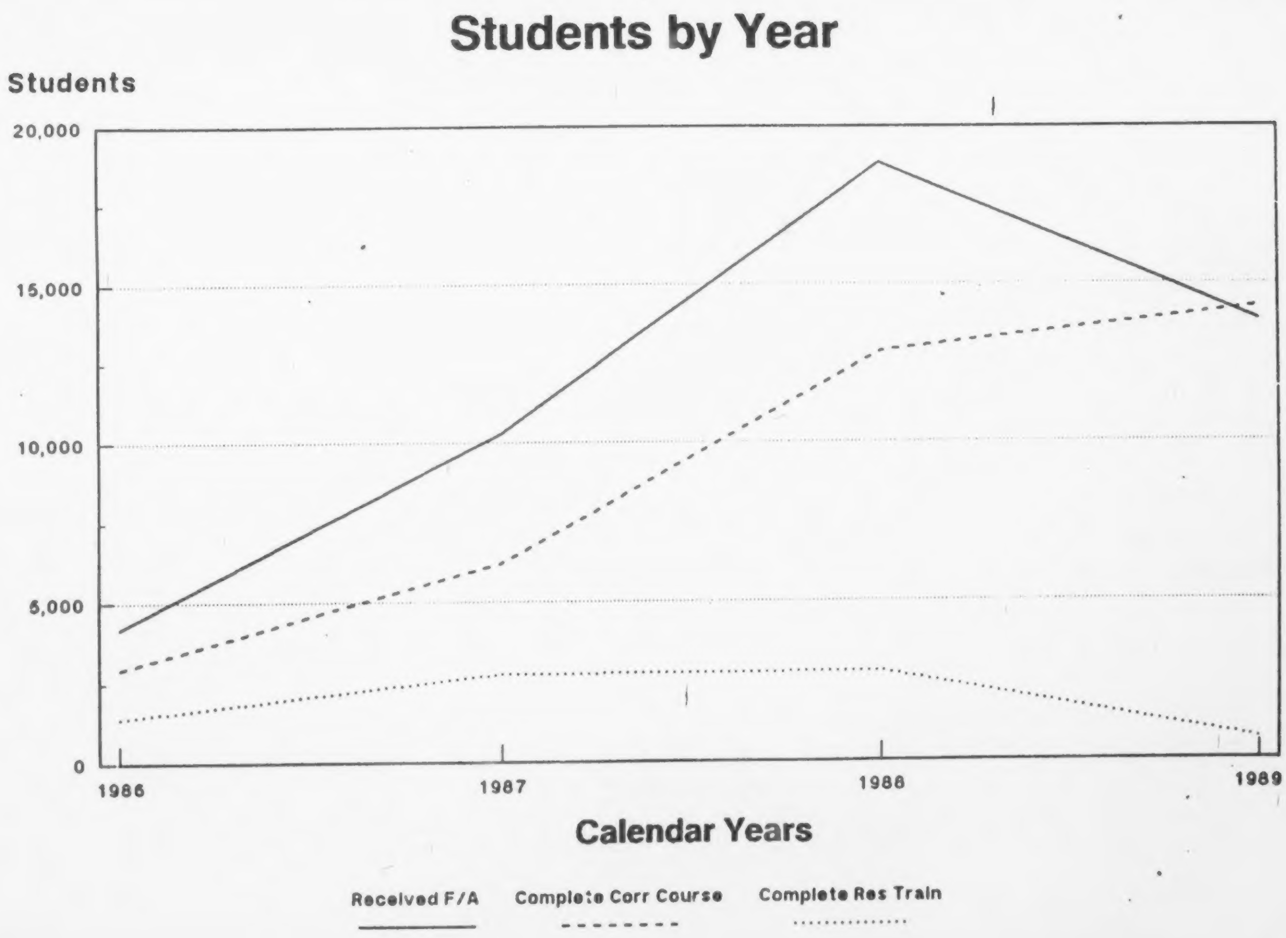
AMERICAN CAREER TRAINING CORPORATION

REVENUES



AMERICAN CAREER TRAINING CORPORATION

EXPENSES & INCOME



Students by Year

TESTIMONY OF

ANDREA LYNN MERRITTS-WEST

BEFORE THE

UNITED STATES SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

February 26, 1990

Good morning, Mr. Chairman and members of the Subcommittee. I am pleased to be here this morning to testify regarding my experience as a student at the American Career Training travel school in Pompano Beach, Florida.

My name is Andrea Lynn Merritts-West, and I am a resident of New Smyrna Beach, Florida. I am 26 years of age, and I work as a training specialist with ProSync, a professional training and management consulting firm, a position I have held since February, 1988.

Until 1987, I worked for Gates-McDonald, a subsidiary of Nationwide Insurance, in the Targetted Job Tax Credit Division in Columbus, Ohio. In June, 1987, I moved to Orlando, Florida, and worked at High Point World Resort, until I was laid off in September, 1987, at the end of the season. In August, 1987, I saw an advertisement in the local newspaper about the A.C.T. Travel School. I called the school's toll-free number and inquired about their courses. The school's local representative, Michael Stewart of Daytona, called me and wanted to visit to tell me about the school, but I declined.

In September, 1987, when I was laid-off from High Point, I moved to Melbourne, Florida, and was unemployed. I had no income and fell upon rough times, living with friends off and on. I applied for unemployment compensation in Melbourne, Florida. While at the unemployment office, I observed a "take-one" display, advertising for the A.C.T. Travel School. I took one of the cards and called the school again. Shortly thereafter, in November, 1987, Mike Stewart, the A.C.T. representative, called me. I told him that I did not have any income and that I was really having some hard times, financially, and that I did not think I could afford to take the travel course. I did not want to waste his time, but he insisted on talking with me about the course anyway. He drove from Daytona to Melbourne to speak with me, a distance of approximately 100 miles.

We met in a friend's apartment. Mentally, I was at the end of my rope. Mike Stewart told me that this school would qualify me for an entry position in the travel industry, starting at approximately $8.00 per hour; more if I got a job with a major airline. He showed me brochures of beautiful, faraway places and told me that travel agents visit these places free of charge on "familiarization trips." He quickly gained my trust. What he was describing was paradise compared to what I was experiencing at the time. Stewart told me that the school had a very high placement rate for its graduates, and that major travel agencies and airlines visited the school to recruit students. He told me that I could complete the course in under six months and be a travel agent.

I was concerned about paying for the course. I told Stewart that I could not afford the tuition. Stewart told me not to worry, saying, "I can get it financed for you." Since I was receiving unemployment checks, I asked if I could set up a cash payment plan. He talked me out of this idea and told me it would be easiest if I financed the tuition through the school. I told him I only had a J.C. Penney's credit card, and he said, "Don't worry, it's a guaranteed loan," leaving me with the impression that I was guaranteed to get the loan. I was never told this was a Federally guaranteed loan; I thought the school was loaning me the money. On top of the tuition, he told me the school would send me a check for $600 to $800 that I could cash and use. I was sold. I knew I would have to pay the money back, but he told me I wouldn't have to pay anything until six months after graduation and after I was gainfully employed.

Mike Stewart then asked me several questions, and I filled out a questionnaire about myself. I gave him a photograph of myself that he said would be placed in my file at the school, so the recruiters from travel agencies could review my academic file and see whom they were hiring. While I was filling out the questionnaire, he was asking me questions about how much money I had made the year before, and the names of family members and friends. He was filling out another form while he was asking me these questions. He knew that I was unemployed, and I told him I had made about $12,000.00 the year before. I gave him $25.00 for the registration fee.

Since there was no telephone in the apartment that we were in, we walked to the pay telephone outside. Stewart called the school and spoke with someone for several minutes. I assumed they were talking about my application. In a few minutes, he called me over to the phone, and I spoke with a woman who asked me if I had paid $25.00 to Mike. I told her I had. She did not ask me very many questions, just if I had received any money from my family. I told her I had not. I really did not know why she was asking these questions. She did not explain that I was giving her information for the loan. She told me that in a few days she would send me some forms and told me to sign the forms in the highlighted areas, and to return the forms to the school.

Mike congratulated me about signing up for the school and left me with the first three lessons to do. I did all of the lessons that night. I was struck about how simple these lessons were. I actually read the books, but knew that I could easily just fill out the answer sheets without studying first. I mailed the lessons in to the school for grading.

Within a week of signing up for the course, I received some forms with a couple of highlighted areas that needed my signature. I signed the forms and mailed them back to the school. I did not read the forms, and I do not recall ever receiving a copy of those forms back from the school. Further, I do not recall ever receiving a copy of the forms that Mike Stewart and I filled out the day I enrolled.

I received the second set of lessons (lessons 4 - 7) in a few weeks. I completed all four lessons in one week. It took me a little longer to do these lessons, because the student is required to memorize codes that are used in the airline and travel industry. Still, I was struck at how easy the lessons were. I mailed the lessons to the school.

I received a check for approximately $2,650.00 from the school, with instructions to endorse the back of the check and return it to the school. I did so.

Because I was concerned about the ease with which I was completing the work, in December, 1987, I decided to call a travel agency in Melbourne about getting a job, and to see if anyone had heard of the A.C.T. travel school. That day, I ended up calling four or five travel agents in Melbourne. They had all heard of A.C.T., but none of them had anything positive to tell me about the school. I was told, "A.C.T. takes anybody that walks in off the street," and, "A.C.T. graduates don't know how to work in an office environment," and, "All A.C.T. will teach you are the travel codes." I asked them all about the starting salary. I was told that I could start, with or without the A.C.T. diploma, at about $4.25 per hour. That was less than I was making on unemployment. I was disgusted.

I called Mike Stewart. I told him what I had learned by calling travel agents and that the lessons were too easy. He told me that $4.25 per hour is just the starting salary and that maybe it was the area. I then realized that this was just a song-and-dance routine.

I called the school and told them I wanted to drop the course. I told them that I had been receiving their newsletter, which advertised the most recent "success stories" of their graduates: graduates placed as desk clerks at Motel 6. I told them about my conversations with local travel agents. I was told that my tuition was paid in full and that it would not make any sense to cancel. I was told that there was no reimbursement if I cancelled. I was told that recruiters were visiting the school. I was told that there was a check for over $600.00 in the mail to me. It was the week before Christmas, 1987. I needed the money. I hung up the phone.

In January, 1988, I received the check for about $600.00, along with a letter which advised me to keep the money for my motel expenses for resident training. The school suggested that I open an account at SunBank. Consequently, I opened a savings account and deposited the check.

Only a few weeks after receiving the check, I decided to drop out. I had nothing to lose. The school's newsletter kept coming, telling of graduates being placed as motel desk clerks. The lessons were simplistic. When I called the school about a question I had in the text relating to AMTRAK, I was told to answer the question, and if I got it wrong they would tell me. I don't even know if they have instructors at the school. I figured that if I just stopped sending in lessons, they would just forget about me.

I didn't do any more lessons. In May, 1989, I got a book from the school. I called A.C.T. and told them I had dropped out. They told me I should finish the course. I gave them my new address and phone number, but did not do any more lessons. I forgot about the school.

In October, 1989, my mother called me from Ohio. She told me that some lady from a business called UNIPAC had called about a Federal student loan I had. I told my mother I never had a Federal student loan, and I called the lady at UNIPAC. UNIPAC told me that I was about to default a Federal guaranteed student loan. I asked the lady at UNIPAC what she was talking about; I didn't understand. The lady at UNIPAC asked me if I had gone to A.C.T. This is the first time that I had ever been told that I had received a Government student loan. I was floored. UNIPAC told me that I owed $2,750.00, and I told them that I hadn't even completed half the course at A.C.T. She told me to get in touch with the school and find out what was going on. When I called A.C.T., they told me that the lender had been refunded the portion of the loan that was due me.

I relayed this information to UNIPAC, and I was told that no refund had ever been made. UNIPAC told me to "proceed with caution because something isn't right." UNIPAC told me to call the school and get the check number of the refund and the date it had been mailed. A.C.T. then told me my file was on "alert" which meant they could not find it. The woman at UNIPAC told me if I chose to complete the program at A.C.T., UNIPAC would defer my loan. I decided to do so. UNIPAC sent me papers to confirm my school activity, part of which was to be completed by the school. A.C.T. said they would not complete the papers, because they "don't do deferments."

In December, 1989, I decided to call another travel agency in the Daytona area, to see if A.C.T.'s reputation with the travel industry had gotten any better. I found out the school's reputation had gotten worse. The manager of a chain of travel agency offices told me that graduates of A.C.T. had no interview skills and could not deal with the public very well. Regarding A.C.T.'s course content, the manager of the agency told me that he could teach me more about the travel industry in just a few weeks than A.C.T. teaches in their whole course.

In the process of trying to clear up all of my problems with my loan, I spoke with at least six different people at A.C.T. One such person was Debbie. She said that according to A.C.T., since my loan had been repaid to the lender, if I wished to continue the course work, I would have to pay the school additional money. I could hear a man named John talking to Debbie about how to handle my situation. He told Debbie that I would have to pay for the remaining lessons to be completed and that, as a base figure, that would be about $600.00, maybe more. Debbie said that I would have to be on the honor system and that the payments would be my responsibility. I sent the first money order of $100.00 made out to A.C.T. on or about January 19, 1990. I am to pay this amount for at least six months.

To date, I have completed 13 of 20 lessons. In January, A.C.T. sent me all the remaining lessons I have to complete. I called A.C.T. February 5, 1990, to see if they had received the money order, and they had no record of it. Additionally, no one could explain to me why I am paying the additional tuition, since files at A.C.T. today show my files as "paid in full, but cancelled." Previously, I was told that my enrollment was cancelled and refunded to the lender, but on February 5, 1990, Cathy Rini told me that the computer did not show a refund as having been made, but "that a refund must have been made," since I was cancelled such a long time ago.

While performing my duties as a counselor and job trainer for low-income and unskilled people, I have come in contact with several people who, like me, have been caught up in deals with schools like this. Like me, these people are looking for a magic way out of the gutter, trying to better themselves. They are unsuspecting and are easily manipulated. Schools like this promise the world and give nothing back. Like me, these people end up back on the welfare line, worse off than they were before enrolling in these programs: We go from having no credit rating to a bad credit rating and a big debt to pay.

I, as a summer youth counselor, teach the youth about bettering themselves; going on to higher education or vocational schools, or into the military. We teach them that there are several avenues available to them. I tell them that there is no easy way out. I tell them that schools that advertise in the back of magazines, that promise a quick, easy education are pitfalls to avoid.

Mr. Chairman, the system which allows these schools to thrive at the expense of the students and the American taxpayers must be corrected. Unfortunately, I am a victim of this system, but it is my hope that, through these hearings, we can prevent what has happened to me from happening to others.

This concludes my prepared remarks. If you should have any questions, I would be happy to respond to them at this time.

TESTIMONY OF

ANGELA M. JONES

BEFORE THE

UNITED STATES SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

February 26, 1990

Good morning, Mr. Chairman and members of the Subcommittee. I am pleased to be here this morning to testify regarding my experience as a student at the American Career Training travel school in Pompano Beach, Florida.

My name is Angela Michelle Jones, and I am from Swansea, South Carolina. I am 21 years old. In the summer of 1987, I saw an ad in The State, a newspaper based in Columbia, South Carolina, about American Career Training, or A.C.T. I was interested in being a travel agent or tour guide, because I wanted to travel. A.C.T. seemed to be able to give me the things I wanted.

I got involved with the school shortly thereafter. At first I was really excited about the school, because I thought that when I graduated, I could make some good money and maybe move to a bigger town. Things did not work out that way however, and I soon became quite aggravated.

I called the toll-free number that was in the advertisement and received a pamphlet highlighting the school. After a couple of telephone conversations, I was told no representative of the school would be visiting me but that enrollment materials would be sent. I filled out what is called a PQP, or a Personal Qualification and Profile form, and returned it to the school. A financial aid officer soon contacted me and explained the student loan that I might be able to get. She made it sound as if I would get the loan from the school and not from a bank. I needed a loan to go to school, so I filled out the paperwork, just as they asked me to do.

A school representative named John Gillies sent me an enrollment agreement, which contained some information about a Guaranteed Student Loan. Gillies told me to fill in the top part of the form pertaining to my school enrollment but to leave blank the portion about a Guaranteed Student Loan. He said it didn't apply to me. He said I needed to sign the form to show that I knew what to expect from the home-study portion of the course and from the residence portion of the course, and that I had 12 months to complete the work.

I signed and returned the form, leaving the Guaranteed Student Loan portion blank. The next thing I knew, I had received a check for $2,415. I was confused, because while I knew at some point I was going to get a loan, I did not think I had done anything at that point to obtain a loan. Since I specifically recalled Gillies's telling me to disregard the Guaranteed Student Loan portion of the enrollment form, I called the school to ask what the check was for. I was told the check was for tuition but that it should be disregarded because it would be voided; it would never be deposited. Nevertheless, they told me to sign the check and return it to them. Because I trusted the school's employees, I did as they asked. Now I realize how stupid it was of me, to sign and return the check. Unfortunately, that was only my first mistake.

They confused me about the entire financial arrangement so I kept asking questions about the money. Again, they told me that the check wasn't going to be used. When I asked how, then, would my tuition be paid, they said that the school would send me a statement showing what the tuition payments would be and the amount that I owed. They made it sound as if I would be repaying the school. As I understood things, I was to make payments to the school while working on the home-study portion of the course and before I went to Florida for resident training. Every time I called to ask them why I had not received a payment book, they kept putting me off, saying they would send it to me later. I questioned the origin of the check that I had endorsed and returned to the school. I was told that the Bank of Horton was the school's bank. Again, I was told that any letters they sent to me referring to a Guaranteed Student Loan did not apply to me.

At a later time, I received a check to pay for my residence training in Florida, and I was told to save the money until that time. I questioned where this money was coming from, and a school employee told me that the school was covering these costs and I would repay this money after resident training.

This whole time, I thought I was borrowing the money from the school. I would not have signed for a Government loan, because I could have gone to my bank and gotten a loan on my own. I certainly would not have borrowed as much money.

My troubles with the A.C.T. travel school were not limited to tuition payment. I was also having trouble getting books and lessons to complete. My first lessons were graded and returned to me along with the next set of books. I completed the second set of lessons and returned those to the school. Those lessons have never been returned to me showing my grades, and I never received any other books after that. I continually tried to get these grades and books and was told by the school that "they are in the mail." They have been telling me that for six months. To date, I still have not received any more books, and I did not know about my grades until an investigator from the Subcommittee staff showed me a copy of my file.

Nearly three weeks prior to the June 13, 1988, date when I was scheduled to attend resident training, I called the school to say I had not received or completed the last ten home-study lessons. I brought this to their attention, even though I knew I couldn't get ten lessons done before resident training.

At this point, I also knew that the one-year period I had to complete the program was almost up. I was really upset, because it was the school's fault that I didn't have the books. My father telephoned the school and we asked to speak to several people, including the president of the school, which never occurred. We were getting nowhere. My father told the school that I shouldn't have to pay back the full amount of the loan, because I had only gotten a portion of the lessons. I didn't feel I owed them for the full course. Nevertheless, they said that I HAD to repay the full amount. They insisted that the books and lessons had been mailed. There was no point in trying to talk to anyone else; there was nothing left to be said. I had done my best to talk with the school, but that didn't work. I didn't know where else to turn.

The next time I heard from A.C.T. was in October, 1988. I got a letter stating that I had been cancelled and that I had a three-month grace period before I had to start making my loan repayments. To date, I have made 11 payments of $50 each; I still have 53 more to make. I don't want to make them, but I guess I have to. I understand that I should pay for the instruction I got, but why pay for what I didn't get? They are making almost $3,000 off of me for nothing.

A.C.T. promised me a lot of things that it never delivered, all at my expense. It seems like they are out for nothing but the money. They are holding me accountable for their mistakes. This could have ruined my credit rating before I really got one. I also feel as though I wasted all that time; instead of being where I am, a cashier at an office supply store, I had hoped to be working in a field that I was really excited about. A.C.T. has gotten me nowhere, but into debt. I wish I had never trusted these people, I would never have had to go through all this.

Mr. Chairman, this concludes my prepared remarks. If you should have any questions, I would be happy to respond to them at this time.

Thank you.

TESTIMONY OF

BRENDA ANN BRANDON

BEFORE THE

UNITED STATES SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

February 26, 1990

Good morning, Mr. Chairman and members of the Subcommittee. I am pleased to be here this morning to testify and contribute to the Subcommittee's investigation into student loan defaults, particularly those of proprietary schools. For three years, I worked at a proprietary school in Florida. I now have a job elsewhere.

My name is Brenda Ann Brandon, formerly known by my maiden name of Brenda Ann Dorman. I am 40 years of age and a life-long resident of Florida. I graduated from Florida State University in 1971 with a Bachelor of Science degree.

My employment history, prior to 1983, was mostly in the secretarial and clerical fields. In the fall of 1983, I learned of the American Career Training Travel School in Pompano Beach, Florida, through an advertisement in a local Florida newspaper. I was looking for a change in my career path, and enrolled in the travel school, paying cash for the tuition. The school, which was fairly new at the time, did not offer Federal student aid, but did offer an interest-free payment plan. I completed the 20 home study lessons in four or five weeks and attended the three-week resident portion of the course, in January, 1984.

After graduation, I was employed at Ambassador Travel, Incorporated, in Fort Lauderdale, Florida. The office's supervisor was Mrs. Ann Calareso, wife of John Calareso. Joseph Calareso and James Calareso are the sons of John Calareso. John, Joseph, and James Calareso own the American Career Training Corporation.

After working at Ambassador Travel, Incorporated, from January through December, 1984, I began working at the American Career Travel School, as an instructor for "System 1," one of the computer systems used in the travel industry, which is the system offered by the school. My beginning salary was $300.00 per week.

American Career Training Corporation does business as the A.C.T. Travel School and the Hart School for Professional Secretaries. When I started work there in 1985, it was known as the American Career Training Travel School. The Hart secretarial school was added later.

After the school received notification from the U.S. Department of Education that the school had been approved to participate in the Federal student loan program, Joseph Calareso, the school's president, promoted me from "System 1" instructor to Financial Aid Administrator for the school. In that capacity, from 1985, until I left the school in November, 1988, I hired, supervised, and managed the employees of the financial aid department. When I started in the position, I was the only school employee involved in the financial aid office. When I left in 1988, I supervised 68 employees.

The Calaresos retained the consulting firm, J.V. Associates, of Jacksonville, Florida, to establish the school's student loan and aid programs, and to train me on the Federally insured loan program. J.V. Associates employee Carol Clairmont is the person who established the school's program.

When I started working in the school's student aid office, there were approximately 600 loan applications pending. I learned how to administer the loan program on my own by obtaining and studying the Federal Register regulations and guarantee agency program manuals. Carol Clairmont was of very little help, because she provided little information, and sometimes gave me wrong information. To summarize, I knew nothing about the student loan program when I was given the job, and the consultant did not do very much to prepare me for the tasks ahead. In 1985, I was processing about 50 loan applications per week. In 1988, the financial aid section was processing and sending to lenders approximately 300 applications per week.

The school advertises and uses regional sales representatives to reach prospective students. The sales representatives meet with the prospective student, in the student's home, and presents a sales pitch on the school. During this visit, the sales representative is supposed to determine the individual's "ability to benefit." Federal regulations require that in order to be eligible for a guaranteed student loan, the institution must determine that the student is capable of learning the material offered by the school. To make this determination, the school used a Personal Qualification and Profile form -- or PQP -- which the school developed. It is designed to be filled out by the prospective student, without assistance from the sales representative. The sales representative is then to review the form and determine, based on the information provided, if the person has an ability to benefit.

The PQP form contains a series of questions concerning education, such as:

"Are you a high school graduate or have an equivalent certificate? ____ Year ____ City and State ____."

"Are you in the process of obtaining your high school diploma or equivalent? ____ If yes, expected completion date ____."

The student financial aid office at the school received every PQP submitted by the sales representatives. I have seen PQP forms on which the student certified that he or she did not have a high school diploma or equivalent, and that he or she was not in the process of obtaining a diploma or equivalent. As I understand the ability-to-benefit regulations and the school's policy, a student may not attend the resident portion of the training until he or she has obtained a high school diploma or equivalent. While I was at the school, I kept a list of students who did not have a diploma or equivalent when enrolled. The list was posted on the wall of my office, and I instructed other employees in my section to add to the list the names of any students that enrolled without the diploma or equivalent.

I have taken PQP forms, on which the student certified that he or she did not have a high school diploma or equivalent, and that he or she was not in the process of obtaining a diploma or equivalent, to Joseph Calareso. Joseph Calareso, after I had explained to him that these students were not eligible to apply for Federally guaranteed student loans, would tell me to change the information on the PQP form to indicate that the student was in the process of obtaining a diploma or equivalent. I refused to alter the records. I have observed Joseph Calareso change the answers to those questions, "Are you in the process of obtaining your high school diploma or equivalent?" from a "No" response to "Yes," and filling in the answer to, "If yes, expected completion date," as ASAP. Joseph Calareso did this on several occasions in my presence.

Near the end of the PQP form, there is an analysis section, wherein the sales representative certifies, by signing, that the student has the ability to benefit. On several occasions, I handed Joseph Calareso PQP forms that were missing elements of the analysis portion of the form. Joseph Calareso would either certify that the student had the ability to benefit, even though he had never met the student, or he would instruct me to take the form to his brother, Jim, or to one of the regional managers. On such occasions, these people would certify that the student had the ability to benefit, even though they, too, had never met the student. Over time, and apparently reflecting Joseph Calareso's feeling that this was not an important issue, the PQP forms that were missing the necessary ability-to-benefit information were routinely referred to the Admissions Department, where the certification was similarly made.

The financial aid office received every student enrollment application. We, the employees of the financial aid office, were instructed by Joseph Calareso to contact every new student, even cash students, and try and get them to finance their education through a guaranteed student loan. This way, the school was guaranteed to receive the full tuition up front. If a cash student is on a payment plan, there is a lower probability that the school will receive all of the tuition, because the majority of the students enrolled never complete the course. With a loan, the school gets all the money early on.

Regarding the outside reviews of the school by guarantee agencies, the Department of Education, the State of Florida, and independent auditors, there was not one review conducted while I was employed at the school that was based on accurate information. For all the reviews conducted, school employees tampered with the records that were provided to the reviewers. For each review, Joseph Calareso had the school's employees pull the student files, review, alter, and, in some cases, falsify data prior to providing those files to the reviewer.

I was struck by the lack of real oversight the reviewers actually exercise. Dave Barton, of the CPA firm Barton and Gordon, spent less than one day on his "independent audit" of the school and made no adverse findings. I am not surprised to learn that the consulting firm that set up the school's financial aid program, J.V. Associates, is a subsidiary of the Barton and Gordon firm. I also heard that Dave Barton owns a proprietary school in Alabama, and that Carol Clairmont is now working for a proprietary school.

The program reviewers and auditors never mentioned the fact that the school had a very low graduation or completion rate for its enrollees. No one ever seemed bothered by the fact that well over 90 percent of the students were receiving guaranteed student loans.

Joseph Calareso was not concerned about the school's default rate. He told me that if we could keep the volume of loans high enough and the loans spread out among many lenders and the national guarantee agencies, it would "take them forever to figure it out." When I told Joseph Calareso that we needed to deal with the lenders and guarantors in the State in which the student was located, he told me he did not care what lenders we dealt with as long as the lender met the following conditions:

"We will never do the double disbursements with lenders. Find lenders with a seven-to-ten-day turn-around time. We will not use lenders that will not issue the loan checks co-payable to the student and A.C.T."

He also said to use the national guarantee agencies "over the State guarantee agencies because it is harder for the national guarantors to track the default rate at individual schools." Joseph Calareso told me that "if you put all of your eggs" (loans) "in one basket, they can control you." The school used the Florida guarantee agency for only a short time. Joseph Calareso told me it was "too close to home."

When we would attend industry conventions and other gatherings, one of my duties was to informally poll the other schools represented to determine what lenders and guarantors they were using and how they did business.

When the school received the student loan checks from the lender, the checks were made payable either to the student and the school, or solely to the student. All the checks would be stamped with a restrictive endorsement ("for deposit only, American Career Training Corporation") and then sent to the student for endorsement and return to the school. Joseph Calareso knew that placing the school's restrictive endorsement on the checks made payable solely to the student was wrong; but this was the method he used to control the student and insure the student sent the check back to the school. The reviewer from Florida Federal (a lender) told Joseph Calareso, in 1986, to stop the practice of using the restrictive endorsement on checks addressed payable only to the student. As a result, A.C.T. simply stopped using Florida Federal as one of its primary lenders.

While I was employed at the school, the Calaresos would increase the cost of tuition almost every year. When I started in 1985, the tuition was $1,295, and when I left in 1988, the tuition was $1,895 per student. I don't know why the tuition was raised, and I don't know of any justification for this increase.

Another area that the outside reviewers never seemed to focus on was the matter of the "student loan budget." This dollar amount is what A.C.T. calculated the cost of attendance to be for each student. This amount is used in calculating the amount a student is eligible for in the guaranteed student loan program. So, if the budget amount is high enough, more students will be eligible for loans. In addition to other factors, this budget amount was adjusted upward every time the tuition was increased.

After a change in the regulations requiring it, we started verifying a percentage of the loan applications that we received by going to the source of information. Those sources included lenders, other schools, and the IRS. When I would discover a discrepancy between what a student had reported, what a previous school had provided, and what a lender reported regarding the status of a previous loan to the student, Joseph Calareso told me that I was "doing too much paperwork," and to ignore the discrepancies. These discrepancies, in some cases, allowed students who had previously defaulted on Federal loans to obtain additional loans. This is the very occurrence which the regulations sought to prevent. A.C.T., the lenders, and other schools, by not seeking and providing the most current information about a student, facilitated this happening.

Ruth Ann Flemming, the Director of Training, complained about the quality of students entering the resident portion, because some students -- students who had already completed the correspondence portion of the course -- could not read or write well enough.

The school also participated in the Supplemental Loans for Students (SLS) program. Even though the interest rate is higher than that for the guaranteed (Stafford) student loans, Joseph Calareso said, "We have to get the tuition covered," and directed the financial aid employees to fill out and send the SLS forms to students, even in the event the student had told the financial aid employee that he or she did not want an SLS loan. To accomplish this, two employees were directed, as their sole duty, to call students and encourage them to take out SLS loans, since the guaranteed student loan (GSL) would not cover their tuition. By sending the completed forms to the students for signature, we were encouraging students to take out the SLS loan.

To encourage the A.C.T. employees to process large numbers of loan and student applications quickly, the Calaresos instituted a number of competitive award programs within the company. For example, sales representatives earned incentive awards after a contest period for the highest number of students enrolled. Receptionists with the highest number of students contacted by phone were rewarded with time off. Loan counselors in my department were rewarded with cash, color televisions, or other such items, for the highest number of loan applications submitted during the contest period. I always felt a little strange that the instructors never had a contest, or that the placement office never was rewarded if they placed a high number of graduates.

The school's refund policy was confusing and changed often. During the early years, it was Joseph Calareso's policy not to issue refunds unless the student mailed back the uncompleted lessons, and notified the school in writing, via certified mail, of the desire to withdraw. The formula for calculating refunds changed often, too. Basically, after a student had been inactive for one year after the date of enrollment, we would notify the lender that the student had withdrawn. The date of withdrawal as reported to the lender was much later than the date the student had actually become inactive with his or her lessons. The date of withdrawal reported was the end of the one-year period the student was "enrolled." In these cases, we were supposed to refund the resident portion of the training to the lender, but for a considerable period of time we did not do so.

Joseph Calareso changed the school's refund policy, as indicated on the reverse side of the contract signed by the student, often. Most of the time, if a student did not notify the school that he or she was withdrawing, the file was not reviewed for the one-year enrollment period, and no refund of the correspondence portion of the course was made to the lender. The school considered it earned income. When regulations changed to require refunds be made based on a percentage of "clock hours" of actual student attendance or participation, this further confused the refund policy. But in actual practice, we continued to hold files as active for the one-year period and then issue refunds based only on the resident portion of the training, not the correspondence portion.

The Hart School for Professional Secretaries was the second program offered by the A.C.T. Training Corporation. The secretarial program, also a combination correspondence and resident training school, began in 1987. After the program began, I discovered that the sales representatives were signing up secretarial course students who were also students of A.C.T. Travel School. I conducted a review of all secretarial school enrollees and discovered that many representatives were involved in the practice of dual-enrolling students. Of course, this is an improper practice, because these students were not eligible to collect two guaranteed student loans at the same time. This practice was not immediately identified, since the students were not being processed through the same lenders, and there is not computer match done by lenders. This practice involved false statements by the students, since they must list any school they attend after high school on the enrollment application, and they had not listed the travel school on the application. The sales representative was involved in the practice, since the representative would know the identity of the students living in his area. I brought this matter to the attention of Joseph Calareso, but his only concern was how soon a travel student could be enrolled in, and obtain student aid for, the secretarial school.

Mr. Chairman, this concludes my prepared remarks. If you should have any questions, I would be happy to respond to them at this time.

National
Association of
Trade & Technical
Schools

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North West
Washington, DC 20007

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202-333-1021

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NATTS

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 1.

TESTIMONY BEFORE THE SUBCOMMITTEE ON INVESTIGATIONS
U.S. SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

BY

STEPHEN J. BLAIR, PRESIDENT
NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

February 20, 1990
9:00 a.m.
Room 342, Dirksen Senate Office Building

National
Association of
Trade & Technical
Schools

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North West
Washington DC 20007

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NATTS

Testimony Before the Subcommittee on Investigations
U.S. Senate Committee on Governmental Affairs

by

Stephen J. Blair, President
National Association of Trade and Technical Schools

As President of the National Association of Trade and Technical Schools, representing some 1,300 private postsecondary institutions, I appreciate this opportunity to participate in the Committee on Governmental Affairs hearings on proprietary schools.

In recent years, the news media have painted a vivid and deeply disturbing picture of fraud and abuse in the proprietary school sector. Phony promises to students. Inadequate facilities, equipment and faculty. Schools going out of business, leaving students in the lurch.

Stories of such abuses are particularly distressing and poignant because all too often the victims are poor and ill-educated young people struggling to get their lives back on track, eager to obtain the skills and training necessary to starting careers and building promising futures for themselves and their families.

I am not here today to question the accuracy of specific exposes of fraud and abuse. The hard truth is that the private career school industry does contain a number of individuals, a very small number, who care only about turning a fast buck.

Unfortunately, it is the tiny minority, the handful of "bad apples," that attracts the vast majority of media and, hence, public attention. Such schools cause incalculable damage not only to the students they have victimized but to the proprietary school sector as a whole, casting doubt on the quality of education provided by our schools as well as on the abilities of our students.

Let me assure you, then, that no one has a more direct stake and greater interest in closing down bad schools and eliminating abuses than does the National Association of Trade and Technical Schools.

At NATTS, we believe one key in attaining these goals lies in effective consumer education, and so we encourage prospective students and their parents to learn about a school inside and out before making their choice. And we do more than offer encouragement; we provide them with the tools necessary to become well-informed and healthily skeptical consumers.

Two years ago, we commissioned Dr. James Myers, Director of the Regional Services Institute at the University of North Florida, and Elizabeth Werner Scott, Director the Urban Skills Center in Jacksonville, Florida, to write what we felt was a much-needed guidebook for students choosing a career and a private career school. The result was Getting Skilled, Getting Ahead.

It is an easily read and understood step-by-step guide to evaluating whether or not a private career school is the most appropriate choice for them, and to evaluating a school's program, facilities, faculty, application form, contract, costs, and payment schedule.

Getting Skilled, Getting Ahead is not designed to nudge students in a particular direction, rather it is designed to enable students to ask hard questions and demand answers. In short, this book empowers students to make well-informed decisions on their own.

Now, some may be skeptical of a consumer guide published by an association of trade and technical schools. Let me hasten to point out that Getting Skilled, Getting Ahead is published by NATTS in cooperation with the U.S. Department of Education and the Consumer Information Center of the U.S. General Services Administration--and it is available free of charge.

Let me also add that your colleague, Senator Simon of Illinois, has said of Getting Skilled, Getting Ahead: "It is, without a doubt, the best consumer resource guide available."

I believe so strongly in the value of this book that I spend much of my time promoting it through the news media, and I am delighted to report that, to date, nearly ten thousand copies have been distributed to high school libraries and guidance counselors as well as directly to prospective students.

But while consumer education efforts, such as Getting Skilled, Getting Ahead, are crucial to efforts to protect students from rip-off schemes, by themselves they are not enough, if for no other reason than it is unrealistic to think every person interested in a private career school will obtain and use this or other consumer guides.

In addition to consumer education programs, the proprietary sector itself must set high standards for schools and insist that they are met.

The Accrediting Commission of the National Association of Trade and Technical Schools has been, and continues to be, a leader in establishing and enforcing rigorous standards for its member schools.

To apply for NATTS accredidation, a school must have been in operation for a minimum of two years. Every school is reevaluated periodically, and any report of wrongdoing or failure to meet standards--including press reports--automatically results in the Commission ordering a school to show cause why its accredidation should not be revoked.

The Commission, composed of five owners of member schools and four public members, is autonomous from our Association. Neither I nor our Board of Directors can overrule its accredidation decisions or standards.

This week, the Commission is in the process of further tightening requirements for NATTS accredidation. To be candid, I fully expect its recommendations to engender lively debate within our Association--and throughout the entire industry. But I am also confident that when the Commission completes it work later this year, the result will be a model for accredidation for the entire proprietary sector.

However, improving accredidation requirements and procedures cannot solve every problem, for, as you know, accreditation is voluntary.

We also recognize the necessity for a federal government role to ensure standards are enforced at every private career school. Let me briefly outline recommendations that we have given to Congress.

1. A proportional tuition refund policy should be mandated to protect students in schools that lose accreditation.

2. If an institution's accreditation is withdrawn, revoked or otherwise terminated within the past two years, it should not be certified or recertified as eligible for financial aid unless accreditation has been restored or the institution has demonstrated its academic integrity to the Secretary of Education.

3. The Department of Education should be granted the power to suspend temporarily all financial aid to an institution if the DOE has reliable information that the institution is abusing federal funds--or to prevent an institution from misusing federal funds.

4. Institutions should be prohibited from using anyone other than a salaried employee to make any determinations regarding student admissions or their financial aid eligibility. Institutions should also be prohibited from paying any commission, bonus, or salary incentive to any person engaged in such admissions practices.

5. Institutions that have more than one accreditation should be required to identify which shall be used to apply for federal student aid programs.

Good private career schools, those that fulfill their responsibilities to their students, have nothing to fear from rigorous standards and close public scrutiny.

In closing, let me point out the private postsecondary education sector is making a critically important contribution to our nation.

Last year, nearly two million students attended private career schools. Sixty-one percent graduate compared to 58 percent in four-year colleges, 43 percent in public community colleges, and 33 percent in Job Corps. Eighty-one percent of these graduates immediately find jobs jobs in their chosen careers. Indeed, these schools provide one-half of the skilled entry level workers in our nation. And they serve a significantly higher proportion of women, minorities and at-risk students than any other postsecondary sector.

We are committed to working with the Congress and the U.S. Department of Education to ensure every private career school in our nation delivers on its promises to students.

Thank you.

#####

United States Senate

MEMORANDUM

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 7.

A.C.T. TRAVEL SCHOOL

4699 NORTH FEDERAL HIGHWAY
POMPANO BEACH, FLORIDA 33064
(305) 946-5551

ENROLLMENT AGREEMENT

PLEASE PRINT

APPLICANT'S FULL NAME Angela M. Jones 9-11-87

ADDRESS

DATE OF BIRTH 8 12/4/68 SOC SEC #

REGISTRAR

I hereby apply for enrollment with A.C.T. Travel School ("A.C.T.") for the course "Basic Training for the Travel Industry." I have [illegible] course clearly and completely explained to me. I fully understand that if my enrollment agreement is accepted by A.C.T., it shall be deemed a binding contract, and I shall receive:

1. A completely filled out copy of this Enrollment Agreement signed by me, and by your representative;
2. The A.C.T. Travel School Catalog;
3. A complete set of 20 lessons which comprise the Independent Study Course mailed to me in groups as study progress is maintained and provided tuition payments (if applicable) are current;
4. 120 clock hours of Resident Training, to be completed within 12 months from the acceptance date of the Enrollment Agreement; and
5. Employment Assistance, however no guarantee of employment is made.

A.C.T. TRAVEL SCHOOL'S "BASIC TRAINING FOR THE TRAVEL INDUSTRY"

COURSE I - 20 lessons/approx.
280 Clock Hours
INDEPENDENT STUDY COURSE

- I 20 lessons of Independent Study as described in the catalog which include 20 self addressed envelopes, 20 tests, summaries and Final Exams where appropriate
- II Reinforced binders for easy reference and filing
- III U.S. Map
- IV World Map
- V Certificate of completion (awarded upon successful completion of Course I)

COURSE II - 120 Clock Hours
(8 hrs/day, 5 days/wk., 3 wks.)
RESIDENT TRAINING COURSE

- I Classes are held every Monday through Friday (except for school holidays)
- II Independent Study Course must be successfully completed prior to attending Resident Training
- III The "Total Course Price" must be paid in full prior to Resident Training
- IV All expenses related to resident training, travel, living accommodations, meals etc. are borne by student
- V Diploma (Awarded upon successful completion of Courses I and II)

The "Total Course Price" is $1695.00 which includes $1200.00 for Course I (Independent Study Course), $495.00, for Course II (Resident Training) and all related teaching materials. It does not include any travel expenses, living accommodations or meals, etc.

TUITION

(a)	CASH PRICE	$ 1695.00
(b)	CASH DOWN PAYMENT	$ 10.00
(c)	UNPAID BALANCE OF CASH PRICE [(a) minus (b)]	$ 1685.00 GSL

You will pay the Unpaid Balance of Cash Price as shown above as follows:

152980 Gillies

ANNUAL PERCENTAGE RATE: The cost of your credit as a yearly rate	FINANCE CHARGE The dollar amount the credit will cost you	Amount Financed The amount of credit provided to you or on your behalf	Total of Payments The amount you will have paid after you have made all payments as scheduled	Total Sales Price The total cost of your purchase on credit, including your down payment of $ 10.00
-0- %	$ -0-	$ 1685.00	$ 1685.00	$ 1695.00

YOUR PAYMENT SCHEDULE WILL BE

Number of payments	Amount each payment	When payments are due
	$	Beginning and on the same day of each thereafter

The "Total Course Price" must be paid in full prior to attending Resident Training. You may prepay in full at any time.

If you apply for a Guaranteed Student Loan ("GSL") you agree to cooperate fully in completing the loan application and any other requirement of the lending institution. Upon receipt of the loan draft, you agree to promptly endorse and return the draft to A.C.T. A.C.T. will then apply the draft to any outstanding balance of the Total Course Price and issue you a check for the difference.

NOTICE: ALL PRICES FOR COURSES ARE AS PRINTED HEREIN. THERE ARE NO CARRYING CHARGES, INTEREST CHARGES, OR SERVICE CHARGES CONNECTED OR CHARGED WITH ANY OF THESE PROGRAMS. CONTRACTS ARE NOT SOLD TO A THIRD PARTY AT ANY TIME.

I understand and agree that the additional agreements and provisions on the reverse side hereof are part of this Agreement and a part of the Contract binding upon me. I HAVE READ BOTH SIDES AND HAVE RECEIVED A COPY OF THE ENROLLMENT AGREEMENT. I HAVE RECEIVED AND READ THE A.C.T. TRAVEL SCHOOL CATALOG.

NOTICE TO BUYER: (A) DO NOT SIGN THIS CONTRACT BEFORE YOU READ IT OR IF IT CONTAINS ANY BLANK SPACES. (B) YOU ARE ENTITLED TO AN EXACT COPY OF THE CONTRACT YOU SIGN. KEEP IT TO PROTECT YOUR LEGAL RIGHTS.

Representative by signature acknowledges receipt of $ 10.00
in Cash ______ Ck. ✓ M.C. ______ VISA ______

GUARANTOR (IF NEEDED) ______ Date ______

Representative's Signature ______ Date 9-11-87

Angela M. Jones Applicant's Signature Date 9-11-87

Enrollment Accepted by School Official ______ Date ______

PLEASE READ THE ADDITIONAL TERMS AND CONDITIONS ON THE REVERSE SIDE

Rev 5/87

A.C.T. TRAVEL SCHOOL

ADDITIONAL TERMS AND CONDITIONS TO THOSE SET FORTH ON REVERSE SIDE

I. Grounds for Termination

A.C.T. reserves the right to terminate any student prior to completion of training for any of the following reasons: (i) failure to make any payment due and owing A.C.T. within thirty (30) days after it is due; (ii) failure to complete successfully the Independent Study Course and Resident Training within 12 months from the acceptance date of the enrollment agreement; (iii) failure to comply with the rules, regulations and policies regarding Resident Training as set forth in the catalog. A.C.T. shall notify the student, in writing, of its decision to terminate and grounds thereof. The date of such notice shall be deemed the official termination date.

II. Refund Policy

A.C.T. shall cancel a student's enrollment upon request of the student.

If the student is rejected for enrollment, any monies deposited with A.C.T. will be promptly refunded.

Up to and including five (5) business days after the Enrollment Agreement has been signed and accepted by the school, there is no liability and all monies paid, if any, will be fully refunded.

After acceptance by A.C.T. and the expiration of the five (5) business day cancellation period, the student shall be liable to A.C.T. as follows:

(a) After five (5) business days from the date the Enrollment Agreement has been accepted by the school and until A.C.T. receives a completed lesson from the Independent Study Course, $150.00.

(b) After five (5) business days from the date the Enrollment Agreement has been accepted by the school and after A.C.T. receives a completed lesson, $150.00, plus 10% of the Independent Study Course tuition until student completes 10% of the lessons.

(c) After completing 10% of the lessons, but prior to completing 25% of the lessons, $150.00 plus 25% of the Independent Study Course tuition.

(d) After completing 25% of the lessons and up to and including completion of 50% of the lessons, $150.00 plus 50% of the Independent Study Course tuition.

(e) After completing more than 50% of the lessons, the student is responsible for the full Independent Study Course tuition.

Upon completion of the Independent Study Course, if the student does not enter Resident Training, or if the student withdraws from A.C.T. prior to Resident Training, or if a student is discontinued for good cause by A.C.T. prior to Resident Training, there is no liability for the Resident Training tuition.

After the student attends the first resident class session if the student requests cancellation, the student shall be liable to A.C.T. as follows:

(a) Up to and including completion of the first 10% of Resident Training, 10% of the Resident Training tuition;

(b) After completing more than 10% of Resident Training and up to and including completion of 25% of Resident Training, 25% of the Resident Training tuition;

(c) After completing more than 25% of Resident Training and up to and including completion of 50% of Resident Training, 50% of the Resident Training tuition;

(d) If the student completes more than 50% of Resident Training, the full Resident Training tuition.

If the amount which the student has paid to A.C.T. as of the time of cancellation is less than the amount due and owing as calculated above, the student shall be liable for the difference. If the amount owed is less than the amount paid, A.C.T. will refund the excess within thirty (30) days of the student's request for cancellation.

III. Failure to Complete Courses

If, within 12 months from the acceptance date of the enrollment agreement, the student has not given notice of cancellation and has not satisfactorily completed Resident Training, then all obligations of A.C.T. to the student shall cease. Refunds cannot be made after 12 months from the acceptance date of the enrollment agreement. If, however, a student's tuition is paid in full, upon written request, extra time may be granted for completion.

IV. Employment Assistance

A.C.T. will assist each student who is in the process of successfully completing Resident Training by providing the following services:

(1) Advice and instruction on professional image and appearance in connection with the interviewing process.

(2) 5 professionally prepared resumes.

(3) A.C.T. actively informs travel agencies and other related travel-oriented companies of the training being provided and the availability of students for immediate placement.

DISCLAIMER: A.C.T. does not guarantee any student a job.

V. Punctuality:

Classes are held every Monday through Friday (except for school holidays) with "breaks" determined by instructor; and a 1 hour recess for lunch. Our instructors have a full scheduled curriculum and much material to cover. We just cannot accept nor tolerate, abusive tardiness or irresponsible interruptions.

VI. Absenteeism:

Because emergencies and illnesses can develop unexpectedly, we shall allow adequate and appropriate "make-up." An acceptable explanation to your instructor will be necessary and required. Unauthorized absenteeism may result in dismissal from Resident Training.

VII. Attendance

The last date of attendance shall be determined by the successful completion (min. 75% ave.) of all subject matter covered at Resident Training.

VIII. Smoking in Class:

Because smoking is offensive to some people, we cannot allow it in class.

I understand and have read the Additional Terms and Conditions stated above together with all terms on the reverse side hereof.

(APPLICANT'S SIGNATURE)

September 11, 1987
DATE

Member of Florida Association of Accredited Private Schools

A.C.T. TRAVEL SCHOOL
4699 NORTH FEDERAL HIGHWAY
POMPANO BEACH, FLORIDA 33064
(305) 946-5551

American Society of Travel Agents
Allied Member

Accredited Member National Home Study Council

Senate Permanent Subcommittee on Investigations

EXHIBIT # 10.

PERSONAL QUALIFICATION AND PROFILE FORM (PQP)

The information requested on this sheet is designed to assist in the evaluation of your ability to benefit from A.C.T. Travel School's Travel Program. It also provides information which may be useful to the Travel School's Placement Department. Only you, the applicant, can complete this form. Please print your answers to every question.

2" x 2"
recent photo

I. PERSONAL

Name ____ Phone: ____

Address ____ (Street and No. / City / State / Zip)

Age ____ Date of Birth ____ Single ____ Married ____

# of Children ____ U.S. Citizen ____ Soc. Sec. # ____

II. EDUCATION

Are you a High School graduate or have an equivalent certificate? ____ Year ____ City & State ____

Are you in the process of obtaining your High School diploma or equivalent? ____ If yes, expected completion date ____

Did you (or do you) attend college or vocational school? ____ No. of yrs. ____ Graduated/Year? ____

Name of College or Vocational School ____ City and State ____

Are you able to type twenty-five correct words per minute? ____

III. EMPLOYMENT

Name of Company ____ Present Occupation ____

Employer's Address ____ (Street and No. / City / State / Zip)

How long employed? ____ Title ____ Weekly Income ____

Do you like your job? ____ Do you get along with employees? ____

Do you get along with management? ____ Any future with Company? ____

What are the company benefits, if any? ____

If dissatisfied with present job, why? ____

IV. GENERAL

Hobbies and activities of interest to you ____

Do you like to be with people, consider yourself patient or have a desire to help people? ____

What other careers have you considered, if any? ____

Do you have confidence in yourself and in your learning ability? ____

Have you ever had a job requiring contact with the public? ____

EXHIBIT NO. 1
Richards
Date Feb. 20 19__
Reporter BKW

In your own words, why did you decide to pursue a career in the travel industry? ____________________

If recommended and accepted for enrollment:

A. Can you start your training at home, today? ____________________

B. Would you be willing to study 5 to 10 hours per week? ____________________

V. AFTER GRADUATION

Please check the specific area of employment you prefer:

- ______ A. Travel Agent
- ______ B. Tour Guide
- ______ C. Ticket Agent/Reservationist
- ______ D. Cruise Line Representative
- ______ E. Independent Outside Salesperson
- ______ F. Hotel/Motel Representative
- ______ G. Amtrak/Car Rental Agent
- ______ H. Other

In what city/geographic area would you like to be employed? ____________________

VI. REFERENCE

Please list the names, addresses and phone numbers of 3 people who have known you for at least 3 years (not related to you):

Name: ____________________ Phone: __________

Address: ____________________

Name: ____________________ Phone: __________

Address: ____________________

Name: ____________________ Phone: __________

Address: ____________________

Name of your bank ____________________

Address ____________________

Savings __________ Checking __________ Visa __________ M.C. __________

I certify that this PQP is filled out accurately and honestly. In addition, I authorize A.C.T.'s use of my name, photograph and other information about me for its purposes, including assistance in job placement.

Signature ____________________ Date __________

DO NOT WRITE BELOW THIS LINE

ANALYSIS — ABILITY TO BENEFIT

DATE __________ INTERVIEWER ____________________

I hereby certify that, during my interview of the above-named applicant, I counseled him/her as to the educational demands associated with A.C.T. Travel School's Travel Program. In light thereof along with my impressions of the applicant's appearance, character, personality, enthusiasm and aptitude, I believe he/she is qualified/unqualified (circle appropriate one) for enrollment in the Travel Program, as being able to understand and benefit from it. I also certify that the applicant has himself/herself answered all sections to this questionnaire.

____
Interviewer's Signature

____
Date

FOR-014
689 AP

FEB-16-90 FRI 1:55 P.02

EXCERPT FROM
STUDENT SERVICES DEPARTMENT
PROCEDURES GIVEN TO
EARL EDWARDS 1/10-12/90.

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 12.

OUTGOING CALLS

NEW CONTRACTS

The Student Services Department will contact newly enrolled students to greet them and explain to them what the Student Services Department has to offer.

The following guide lines should be adhered to:

1. Welcome them into the program.
2. Ask if they are enjoying their lessons.
3. Answer any questions they may have with regards to either their lessons or school procedures.
4. Ask them if they enjoyed the video their sales representative showed them when they enrolled, and was he able to answer all their questions?
5. Was the deposit given to sales rep. cash or check?
6. Ask how they heard about our school.
7. Have them start thinking about Resident Training.
8. Verify their address and telephone number.
9. Get a telephone number of a friend or work number as an alternate number if we cannot reach them at their home number.
10. Remind them to let us know IMMEDIATELY if they move.
11. Remind them that we are here to help them in anyway we can to make their Home-Study more enjoyable.

SEE EXHIBIT T
AGENT'S TRAINING MANUAL
4/89

REMEMBER TO RECORD ANY PROBLEMS OR UNUSUAL ANSWERS IN YOUR REMARKS COLUMN AND BRING IT TO YOUR SUPERVISORS ATTENTION.

AMERICAN CAREER TRAINING CORPORATION

A.C.T. TRAVEL SCHOOL
POMPANO BEACH, FLORIDA

THE HART SCHOOL
FOR PROFESSIONAL SECRETARIES

ADMISSIONS REPRESENTATIVE'S TRAINING MANUAL

Revised April 1989

II. Background of American Career Training, Corp. (A.C.T.)

A. founded in June, 1982, in Pompano Beach, Florida

B. grown from a local school in South Florida to over 135 representatives in over 25 states!

C. most territories have original representatives hired (very little turnover!)

D. currently employs over 300 people in its staff and faculty.

E. student body growth - from 50-100 students in home study to over 25,000 today and from 0 students in Resident Training to almost 400 today.

F. A.C.T. has successfully trained over 35,000 students.

improper license references/ 6E-2.004(7), F.A.C.

G. A.C.T. is licensed and/or registered with the Departments of Education in each state represented under Trade and Business Schools.

H. nationally accredited by the National Home Study Council since March, 1985

   1) *A.C.T. is the youngest school to receive national accreditation in the history of the N.H.S.C.*
   2) *A.C.T. is one of only two schools to be accepted on its first application*
   3) *Joseph A. Calareso, President of A.C.T. currently serves on the N.H.S.C.'s Board of Trustees*

I. Both A.C.T. Travel School and The Hart School for Professional Secretaries are members of the Florida Association of Accredited Private Schools and the North Broward/Pompano Beach Chamber of Commerce.

J. A.C.T. Travel School is also a member of:
ASTA - American Society of Travel Agents
NTA - National Tour Association

K. The Hart School for Professional Secretaries is also a member of Professional Secretaries International

IV. Basic Responsibilities/Procedures

A. ***Leads***

Generated from newspaper advertising, referral cards, flyers, etc., are distributed EVERY DAY to representatives. All leads received by phone will be entered into our computer and sorted by zip code assignment to each representative. It is the representative's responsibility to call each day for leads and messages!!

B. ***Enrollments***

When enrolling a student, admissions representatives MUST call the home office to notify and report student's name, address, lead number and amount of registration fee. (This can also be effective for "approval" on hard-to-close prospects!) At this point, a letter is sent out to the student from the placement director (see Exhibit A-1 & A-2), thus reducing any chance of buyers' remorse and cancellations.

If the student requests an application for a Student Loan, it's at this time that the call can be transferred to Financial Aid.

ALL ENROLLMENTS ARE TO BE MAILED IN TO HOME OFFICE ON THE SAME DAY OF THE SALE!!!

NOTE - a student has 5 business days to withdraw and receive a full refund from the date of ACCEPTANCE!!

Enrollments are accepted daily, as receivied, and are sent a formal letter of acceptance with a copy of their fully signed enrollment agreement (see Exhibits B-1 & B-2).

C. ***Commissions***

A $300.00 commission will be earned for each enrollment, on a 50/50 split until representative is paid in full.

Half of all monies collected from student at the time of enrollment will be paid to rep (up to $300.00). If full commission is not earned from initial enrollment fee, then half of all student's payments will be paid to rep as collected until rep has been paid in full.

Examples:

Down Payment	Commission Paid
$600.00	$300.00
300.00	150.00
150.00	75.00

Commission checks are cut and mailed out each week with a detailed printout listing each active student with commissions due. *(In the event of a refund being issued to the student, the rep may be "charged back" a portion of his/her commission.)*

EXHIBIT Q-1

SET THE STAGE AND STAY IN CONTROL

1. **Variable Situations**
   - A. *Physical contact*
   - B. *Mental contact*
   - C. *Consideration of yourself*
   - D. *Consideration of buying*
   - E. *Need or*
   - F. *Want*
   - G. *Resolve to buy*

2. **Five Components of Each Sale**
   - A. Source
     - *1. Familiarity with product or service*
     - *2. Recognition through advertising*
     - *3. Sense of "Ok-ness"*
   - B. Need
     - *1. Determine the needs or wants of the prospect from a benefit basis*
     - *2. Turn the features of the product or service into benefits that will serve their specific needs!*
   - C. Product or Service
   - D. Price
     - *1. Tuition is an investment*
     - *2. Justified by their needs*
   - E. Time or Close

prohibited / 6F-3.001, F.A.C.

Remember:

Never mention a feature if it can't be turned into a benefit to serve the prospect's needs.

Play the role of "career consultant" with the prospect. Ask questions; make the prospect tell you what they want to hear. Use the P.Q.P.!

When more than one is to be sold be sure to "set your stage" and, above all, do your own selling. Don't expect an untrained person to be able to sell.

When your presentation is interrupted, always repeat what has been covered before proceeding.

IX. In-Home Pitch (Travel)

A.C.T. Travel School trains people in the travel industry - those who want to become travel agents or work for airlines, either as a ticket agent or reservationist. Some like to get involved with cruise lines, others with car rental agencies, some with motels, and some in the tour business.

A lot of people get started in the industry because of the many benefits: It's a billion dollar industry and a lot of people can make a lot of money and have a lot of fun doing it. Some people who want to become travel agents get started in this because of the "fam" trips. These are the trips that hotels, cruise lines, and airlines offer. They are all anxious for you to sell their business. They offer "fam" trips to encourage you to book your clients on their airline, cruise ship, etc.. Then you can specialize in specific things. If you want to specialize in the Caribbean, there's a lot of islands over there, you could take trips over there. These trips normally are free, some involve a small surcharge. Some people get involved in the reservationist/ticket agent field, because they can get free travel for themselves, as well as their families.

Another good benefit is that you can live anywhere. We have people now that we place worldwide. As a matter of fact, we've got some now in France, British West Indies, as well as all parts of the United States.

Another benefit is flexibility. You can work full time or part time. Of course, if you have no job right now, you'll certainly want a full time job. If you're raising small children, you may want to take a part time position. You can also work from your house and just book travel, working strictly on a commission basis.

Earn good pay. Our presentation manual states that incomes nationally for travel agents ranges between $10,000 and $20,000. Nationally, in the airline industry, incomes are over $23,000. Of course, this all depends on what area of the country you come from. When you are first starting out, no one expects to make a lot of dollars, but this is the national average.

This is certainly a respected profession. It's a lot of fun. If you say you are a travel agent or are working for the airline, it's certainly a prestigious job.

You can discover excitement. In the travel business, visiting various places and meeting a lot of interesting people is certainly exciting.

You are on your way to having a great career opportunity. In this industry, you can eventually own your own business and anybody would like to do that.

This is a Personal Qualification Profile form for you to complete. This will help us evaluate your ability to benefit from the course. It provides us with information regarding your personal, educational and employment history. We're going to ask you in your own words why you want to get started in the travel industry. If we recommend you, we hope you could start today. You will be working 5-10 hours per week on your lessons. You need to specify what area of employment you are looking for and what geographic area. We will need some references. And some financial information on savings, checking, VISA, Mastercard, or just cash on hand. We will need your signature. Then, I'll review this form. If I feel that I can recommend you for this school (a recommendation is necessary for admission), I will sign this, indicating that you are qualified for entry into the school. I'll also need that tuition deposit I mentioned to you before, on the phone, as well as a photograph. This will go in to the admissions committee, who will review your application and within a period of five days you will know one way or the other if you have been accepted.

I have here a Travel Connection. Once you graduate from the school, you will receive one of these every month. This tells about job opportunities. There are four pages of job opporunties in this one, as well as do's and dont's for job seekers, and where some of our recent graduates were placed. You will notice that many were placed in hotels, tour companies, travel agencies, cruise lines, airlines, and car rental agencies.

We want you to be successful. After all, we're only as good as the people working in the industry. I have a couple articles here, one from TWA. It says that the majority of openings that do occur, occur in the reservation/sales agent/ticket agent field. These positions are normally filled by experienced and trained people. Deregulation has caused a lot of travellers to flock to travel agents. Prior to 1978, agents were not required to be be trained. That has now changed. You need computer training. I have an article here that says, "Fly high with a good travel school." Of course, we know we're good. We've been in the business now for 7 years. We have enrolled numerous people and have an excellent placement record. In an article here out of Pompano Beach, Sharyn Cole our placement director states that if the student has the right attitude, there is no limit to what he can do. We can normally find them a position anywhere in the world they choose.

I have some testimonials from students. This one is from Sherry Roberts. It says, "I must emphasise A.C.T. is an outstanding travel school and anyone who is contemplating a career in travel, I strongly recommend this."

I mentioned the Travel Talks. We have a testimonial here from Evelyn Nixon, which says, "A.C.T. staff, my sincere thanks go out to all of you. I'm on my way to a promising career with American Airlines. I have two more weeks of training to go. We will receive a Welcome Aboard pass to go anywhere we want to at that time." Evelyn was a resident of North Carolina and she just became a reservationist in Hartford, Connecticut with American Airlines.

Here is another letter from Teresa Joiner, who states that, "This is a thank you note. I would never have been offered this job if my employer had not been impressed with my schooling."

We get numerous statements like this. We get them from outstanding graduates of the school. This letter is from Lynn Summerford, who started out as a ticket agent with Atlantic Gulf Airlines in Tallahassee. Within two days, she moved up to become a flight attendant. This letter is from Budget Rent-A-Car. They are paying an average of $5.00 an hour with additional benefits. I like this letter from Continental Airlines which was sent to Sharyn Cole. "I would like to take the opportunity to thank you and your staff for helping us to meet our hiring needs with such well-trained, qualified students. I was certainly impressed with your facilities and staff." We have some letters from President Reagan who commends the National Home Study Council for the success it renders to the nation. "Through study at home, citizens of all ages enrich their lives and prepare themselves for more productive roles in their community and the nation."

We are accredited by the National Home Study Council. There are well over 10,000 schools in the United States, but there are only 104 that are accredited by the National Home Study Council. We were one of two schools in its history to be approved on the first application. Here are photographs of some of our graduates.

Of course, the only question I haven't answered is, "What does this program cost?" The cost is ____________. The majority of the people pay it all up front. If this creates a problem, we do have other payment plans. Or, you may just be one of those lucky individuals who qualify for a Guaranteed Student Loan. If that is the case, we can wave these payment plans, and I can recommend you for acceptance into A.C.T. with a deposit of $25.00.

on-the-job type problem solving. You are going to improve your skills. You're going to improve your speed and accuracy in typing because we hope to get you up another ten to fifteen words per minute. You'll be doing a lot of transcription. That's important. There is no shorthand any more. It's actually transcribing dictation. You will be also working with the Wang Word Processor. Of the 120 clock hours you will have at Resident Training, 80 plus is going to be on typing, word processing and transcription.

You are also going to be training in realistic office situations. You will be learning in office-type environments, how to handle the equipment in these offices, also solving certain situations. We also have a self-directed job search department, we'll be teaching you employability skills and Professional Image. When you graduate, you will receive a diploma. You will be meeting with our placement department and they will prepare resumes for you, they'll tell you how to dress, how to handle yourself at interviews. As a matter of fact, we have many on-campus interviews being conducted by outside companies.

When you graduate, as we mentioned before, you're going to be qualified for an entry level position as a secretary, a general secretary, an executive secretary, or a clerk/typist.

We are licensed in the state of Florida, and members of the Florida Association of Accredited Private Schools, as well as Accredited by the National Home Study Council. We are also a member of Professional Secretaries International.

I'm here, actually, to interview you, answer your questions, evaluate you, see if you would qualify to come into our school.

At this time, I would like you to fill out a Personal Qualification and Profile form. This will tell me whether you will benefit from the course and whether I can recommend you for our school. Of course, all I can do is recommend you. You have to be accepted by the admissions committee.

Everything looks good on the Personal Qualification and Profile form. Let me just explain a little about what is happening here. A lot of women get started in business and eventually move up the ladder. That's what this shows - people in advertising and broadcasting. It's very hard to find a good secretary, so when the boss has one, he's going to try to keep her. How does he do that? He gives you pay raises and other benefits. This article says the employers might be able to fill about half of the expected annual openings with students who have completed secondary or post secondary secretarial programs. That's what we are - a post secondary trade school. We are looking for the secretary with the right stuff, who can get things done, who is poised and polished, one who can think, one who can organize and coordinate, has the self-confidence and self-discipline to be successful. Of course, if you look in the want ads, this is just one page, from the September 27 Palm Beach Post, there are plenty of jobs here, incomes ranging from $18,000 to $24,000.

This is the new electronic typewriter you will receive. Of course, it has a 50,000 word dictionary in it, it has a processing system that allows it to recall or delete text using a built-in character memory. A nice typewriter. One that has a good retail value.

Here is an article from our placement director which states that she just had a conversation with a representative from Norell Temporary Services regarding our program. She was so impressed with it that she is anxious to start hiring secretaries in her temporary services. She has 235 locations throughout the United States.

This article says, "Vocational schools offer fast job training." This one says, "Only half the nation's vocational schools meet the minimum standards set by accrediting agencies recognized by the Department of Education." If you want to check out schools, they tell you to check with the National Home Study Council in Washington, DC. You will notice that we are members of the National Home Study Council since 1985. We have numerous letters here from President Reagan.

The only thing I haven't told you is what our tuition fees are. They are ____________. You can pay it all up front or they have payment plans. Or you may be eligible for a Guaranteed Student Loan. If you are, this is what I need from you. I need two enrollent agreements signed, one I keep, one you keep. I have a completed questionnaire, and I want to recommend you because I think you have outstanding features. I need a photograph and the tuition deposit. Within a period of five days you will know whether you have been accepted by the school.

EXHIBIT T

CREATIVE MARKETING
WHERE ARE THE PEOPLE?

UNEMPLOYMENT OFFICES
WELFARE OFFICES
FLEA MARKETS
APARTMENT COMPLEX
BUS STATIONS
DOOR-TO-DOOR HOUSING
BUS STOPS
FOOD STORES; SUPERMARKETS
K-MART
DISCOUNT STORES
PARKING LOTS
WOMEN'S CLUBS
ELKS
EAGLES
BANKS
OFFICE BUILDINGS
STRIP SHOPPING CENTERS
MOBILE HOMES
Y.M.C.A.
Y.W.C.A.
PARENTS WITHOUT PARTNERS
NEIGHBORHOOD MEETINGS
FRIENDS
RELATIVES
NEIGHBORS
HIGH SCHOOLS
SOCIAL SERVICES
DOCTORS - YES M.D.
DENTISTS - YES D.D.S.
ATTORNEYS - YES
SCHOOL TEACHERS
PERSONNEL OFFICES
EMPLOYMENT AGENCIES
AUTOMOBILE AGENCIES
MOBILE HOME PARKS
CHURCHES

AND THE LIST GOES ON . . .

PEOPLE ARE EVERYWHERE!!

This is the new electronic typewriter you will receive. Of course, it has a 50,000 word dictionary in it, it has a processing system that allows it to recall or delete text using a built-in character memory. A nice typewriter. One that has a good retail value.

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EXHIBIT U-1

FROM: John Wash
TO: All Admission Representatives

We all appreciate the effort and TEAMWORK demonstrated as we compiled the following list of suggestions to generate additional business. Our anticipation to see your numbers increase has already been revealed in our 1988 projections and individual quotas. Good luck in the new year and watch for more exciting news to increase your production!

1. Handouts at malls.

2. Call churches, speak to pastor first, then to young people's counselors. Many church groups have nights where they have a panel of people in different careers for young people to ask questions.

3. Leave car signs on - even when not working.

4. Use referral cards at every interview.

5. Talk to waitresses in fast food restaurants.

6. Use billboards at fitness centers, laundromats, housing projects, condominiums and apartment projects.

7. Encourage prospect to bring someone along.

8. High School career counselors.

9. Rehabilitation centers.

10. Chain method - get 1 lead from each enrollment. Use PQP where references are required.

11. Contact managers of city parks - present program to them.

12. Stay in touch with students and graduates showing interest in their progress.

13. Upon enrollment, get two referral names and phone numbers. Then give the student 3 referral cards.

14. Visit travel agencies in your area - leave your card with the manager.

15. Bus systems offer inside advertising on the buses.

EXHIBIT U-2

16. Conducting Saturday sits at rural grocery store. Put up notices in 30-35 mile radius giving date, time and place.

17. Leave business cards and brochures in all fast food restaurants.

18. Drive through large housing projects SLOWLY with door sign on. Best times are Friday afternoons and Sunday afternoons.

19. If a student is a motivator and a go-getum type person, I ask that we set up another meeting in her home in about 4 or 5 days with at least 5 friends.

20. Always wear lapel pin. [illegible] read - Joe Doakes, Admissions A.C.T. Travel School (1-800-432-3004 FL)

21. Meet with the managers of low income and government housing apartments. Give group presentation.

22. Keep in touch with the G.E.D. Board. Classes are normally held at night - Adult Education.

23. Put business cards at city libraries in the travel section.

24. Purchase personalized car tags from the state. Tag reads A.C.T. or CAREERS.

25. Contacts in some of the hospitals or hotels (maids).

26. Rent space in mall when "TRAVEL" is the theme.

27. Find school counselors who work with High School Seniors who have no intention of going to college.

28. Rent space at local flea markets.

29. Place literature in physicians and dental offices (if possible).

30. Posting A.C.T. flyers or posters at area colleges and universities.

31. Car signs work when you go into service stations.

EXHIBIT U-3

32. Make up "Special Packets" consisting of brochures, Travel Talks, See the World flyer. On outside of brochure, I staple a referral card and name card.

33. Talk to counselors from state agencies.

34. Talk to Regional Directors that handle retraining and placement of personnel in plant closings.

35. Present our program to certain minority-oriented churches that offer counseling and guidance to young divorcees and unwed mothers.

36. Reps are using their commission sheet to record the times called as well as how many referrals each student gives the rep.

37. College career days on black campuses.

38. Contact women's clubs.

39. Business card "Give-out System" at shopping centers.

40. Contact Educational Center Director at military bases. Work with military and civilian workers who want information on careers in travel or secretarial profession.

41. Leave brochures at beauty shops.

42. Why not use "Bird dogs" to get you business?

43. Unemployment offices - leave referral cards.

44. Food stamp offices - leave referral cards.

45. Welfare offices - leave referral cards.

VM

(196)

UNITED STATES DEPARTMENT OF EDUCATION
REGION IV
101 MARIETTA TOWER BUILDING SUITE 2203
ATLANTA, GEORGIA 30323

STUDENT FINANCIAL ASSISTANCE

November 8, 1988

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 13.

Mr. Joseph Calareso
President
American Career Training
Travel School
4699 No. Federal Highway
Pompano Beach, Florida 33064

Dear Mr. Calareso:

On October 17-19, 1988, a review was conducted of the Guaranteed Student Loan program administered at your institution. The findings of that review are presented in the enclosed report.

Findings of non-compliance are referenced to the applicable regulations and specify the action required in order to comply with the regulations and statutes. Please review the report and respond to each finding by indicating what actions have been taken to date or will be taken. Your response should be sent directly to the reviewer within 30 days.

I would like to express my appreciation for the courtesy and cooperation extended to me during the review. If you have any questions concerning the report, please call our office at (404) 331-4172.

Sincerely,

Vivian W McGee

Vivian W. McGee
Institutional Review Specialist

Enclosure

cc: Ms. Victoria Edwards, Chief, IRB, Wash. DC
Ms. Brenda Brandon, Financial Aid Director

PROGRAM REVIEW REPORT

INSTITUTION:	American Career Training Travel School 4699 No. Federal Highway Pompano Beach, Florida 33064
TELEPHONE:	(305) 946-5551
EIN #:	Code #022959
TYPE AND CONTROL:	Proprietary, Less than One Year
ACCREDITATION:	National Home Study Council
REVIEWING ED OFFICIAL:	Vivian W. McGee
DATE OF REVIEW:	October 17-19, 1988

INSTITUTIONAL OFFICIALS CONTACTED:

Mr. Joseph Calareso, President
Ms. Brenda Brandon, Financial Aid Director
Ms. Susan Richards, Financial Aid Associate

OSFA PROGRAM PARTICIPATION:

Guaranteed Student Loan Program

AWARD YEARS REVIEWED:

1986-87
1987-88

INTRODUCTION:

On October 17-19, 1988, Mrs. Vivian McGee visited American Career Training Travel School for the purpose of performing a program review. A sample of thirty (30) student files was selected for review which included awards for the 1986-87 award year and the 1987-88 award year. The pertinent records, forms, and procedures at the institution were examined. In addition, interviews were conducted with appropriate personnel.

During the visit, some areas of non-compliance were noted. Findings of non-compliance are referenced to the applicable regulations and specify the actions to be taken by the institution to bring operations of the financial aid programs into compliance with regulations and statutes.

DISCLAIMER:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning the institution's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Also, it does not relieve the institution of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV programs.

APPENDIX:

You will note that at the end of the program review report there is an appendix which lists, by award year, the names and social security numbers of the students in the sample. Please refer to this list of students who are now being identified by number in the body of the report.

1. Finding: Refund Due to Student

   In a review of student files it was determined that Student No. 8 sent the institution a check in the amount of $450 to cover the cost of the residential training. Subsequently, the student informed the institution she would not attend the residential program. The institution failed to return the $450 to the student.

   Reference: 34 CFR, Section 682.604, Federal Register, November 10, 1986.

   Required Action:

   The institution must reimburse Student No. 8 for the $450 it received for the residential training which the student did not attend. A copy of the check to the student must be submitted with the response to the report.

2. Finding: Incorrect Cost of Attendance Used

An examination of the files for Students No. 12 and 14 revealed that the cost of attendance was incorrect as it was reported on the GSL application. In each case, the budget was understated.

Reference: 34 CFR, Section 682.603, Federal Register, November 10, 1986.

Required Action:

While the incorrect cost of attendance had no significant impact on the students' loans and no funds were provided in excess of need, the college officials must exercise caution to ensure that the appropriate cost elements are used in determining the students' cost of attendance.

In the response to this report, the officials must provide assurances that the students' costs of attendance will reflect the appropriate cost elements.

Recommendation:

It is recommended that the institution take a close look at the travel component of the budget to determine if it is a realistic cost or if the cost is not overstated for some students. Some consideration should be given to averaging travel costs according to sections of the country thereby having more than one cost component for travel -- one local, one for the state and several for sections of the United States and Puerto Rico.

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 15 A.

J.S.

DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

FORM APPROVED
O.M.B. NO. 1840-0098
APPROVAL EXPIRES: 7/31/86

REQUEST FOR INSTITUTIONAL ELIGIBILITY FOR PROGRAMS

(Under the Higher Education Act of 1965, as amended)

(Authority 20 U.S.C. 1085, 1088, 1141)

FOR ED USE ONLY

DATE RECEIVED	DATE REVIEWED
3-11-85	5-22-85
REVIEWED BY	
REASON Initial	

This application is authorized under the Higher Education Act of 1965, as amended, P.L. 96-374. If you do not complete this form, you will not be eligible for funding under the titles of the Act.

1. NAME OF INSTITUTION American Career Training- Travel School	2. ADDRESS *(Include ZIP code)* 4699 N. Federal Hwy. Pompano Beach, FL 33064
3. EMPLOYER IDENTIFICATION NO. *(Assigned by IRS)* 159-222-1740A1 3P 9-30-87	4. OTHER OR FORMER NAMES OF THE INSTITUTION N/A

5. CENTRAL OFFICES, BRANCHES, AND OTHER LOCATIONS

a. IF THE INSTITUTION IS A SEPARATELY ACCREDITED OR SEPARATELY ORGANIZED BRANCH OF AN INSTITUTION, GIVE THE NAME AND ADDRESS OF THE PARENT INSTITUTION OR CENTRAL OFFICE

N/A

b. IF YOUR INSTITUTION OFFERS POSTSECONDARY EDUCATIONAL PROGRAMS AT ANY LOCATIONS OTHER THAN THE ADDRESS LISTED IN ITEM 2, LIST THE ADDRESSES OF THESE OTHER LOCATIONS *(Attach an additional sheet, if necessary)*

N/A

6. DATE POSTSECONDARY INSTRUCTION FIRST GIVEN *(Month, day and year)* Jan. 20, 1983	7. CONTROL *(Check one)* ☐ PUBLIC ☐ NONPROFIT* ☒ PROPRIETARY *(Private, for profit)* **(If nonprofit is checked, attach a copy of the document from the IRS certifying the institution as one to which contributions are tax deductible under Section 501 (c)(3) of the Internal Revenue Code)*
8. IF A NONPROFIT INSTITUTION, DOES THE INSTITUTION TRAIN INDIVIDUALS FOR RELIGIOUS VOCATIONS OR TO BE TEACHERS OF RELIGION? ☐ YES ☐ NO N/A	9. SUPPLY THE NAME OF THE AGENCY IN YOUR STATE BY WHICH THE INSTITUTION IS LEGALLY AUTHORIZED TO PROVIDE A PROGRAM OF EDUCATION BEYOND SECONDARY EDUCATION IN THE STATE *(Attach a copy of current authorization)* State Board of Independent Postsecondary, Vocational, Technical, Trade and Business Schools, Dep't of Education, Tall, FL 32301

10. ACCREDITATION AND ITS ALTERNATIVES

a. ☒ IF THE INSTITUTION IS ACCREDITED OR PREACCREDITED BY A NATIONALLY RECOGNIZED ACCREDITING AGENCY OR AGENCIES, CHECK AND PROVIDE A COPY OR COPIES OF THE ACCREDITATION NOTICES. A LIST OF THE RECOGNIZED ACCREDITING AGENCIES IS ENCLOSED. American Career Training - Travel School is accredited by the National Home Study Council. See attached letter

b. ☐ IF THE INSTITUTION'S APPLICATION FOR ACCREDITATION IS ALREADY ACCEPTED BY A NATIONALLY RECOGNIZED ACCREDITING AGENCY, BUT THE INSTITUTION SEEKS ELIGIBILITY TO MEET A FUNDING DEADLINE OF THE DEPARTMENT OF EDUCATION BASED, IN PART, ON THE SECRETARY'S MAKING AN ALTERNATIVE DETERMINATION OF SATISFACTORY ASSURANCE, CHECK AND PROVIDE THE DOCUMENTS REQUESTED IN THE ATTACHED GUIDELINE.

c. ☐ IF THE ELIGIBILITY REQUEST IS PARTLY BASED ON THE THREE-INSTITUTIONAL-CERTIFICATION METHOD, CHECK AND PROVIDE ON A SEPARATE PAGE THE INFORMATION REQUESTED IN THE ATTACHED NOTICE.

d. ☐ IF THE INSTITUTION IS A PUBLIC POSTSECONDARY VOCATIONAL INSTITUTION APPROVED BY A STATE AGENCY RECOGNIZED BY THE SECRETARY AS A RELIABLE AUTHORITY AS TO THE QUALITY OF PUBLIC POSTSECONDARY VOCATIONAL EDUCATION IN YOUR STATE, CHECK AND ATTACH A COPY OF THE APPROVAL NOTICE. A LIST OF THE RECOGNIZED STATE AGENCIES IS ENCLOSED.

e. ☐ IF THE INSTITUTION IS A FLIGHT SCHOOL, OR IF IT OFFERS COURSES IN FLIGHT TRAINING, CHECK. ATTACH A COPY OF THE INSTITUTION'S FAA CERTIFICATION.

11. IF A FOR-PROFIT INSTITUTION, LIST THE NAMES AND ADDRESSES OF THE OWNER, MAJOR STOCKHOLDERS, OR PARENT CORPORATION	PERCENT OF OWNERSHIP
John Calareso 11460 NW 31 St. Coral Springs, FL 33065	33 1/3%
Joseph A. Calareso 10108 NW 1 Manor Coral Springs, FL 33065	33 1/3%
James D. Calareso 1365 Savoyard Way West Palm Beach, FL 33411	33 1/3%
	%

12. ARE COMMISSIONED SALESMEN EMPLOYED TO RECRUIT STUDENTS?

☒ YES ☐ NO

13. IS THERE ANY LEGAL ACTION PENDING AGAINST THE INSTITUTION BY A FEDERAL, STATE, OR LOCAL PUBLIC AGENCY? *(If yes, give details on a separate page)*

☐ YES ☒ NO

14. PROVIDE THE FOLLOWING:

a. MOST RECENT CATALOG
b. REFUND POLICY *(If not in catalog)*
c. STUDENT CONTRACT OR ENROLLMENT AGREEMENT *(For-profit institutions ONLY)*
d. CURRENT PROMOTIONAL LITERATURE *(For-profit institutions ONLY)*

15. ENROLLMENT *(Number for most recent academic term available)* approx. 900 students are in the process of completing their home-study lessons

a. FULL-TIME
b. AT LEAST HALF-TIME, BUT LESS THAN FULL-TIME
c. LESS THAN HALF-TIME
d. DATE ON WHICH ACADEMIC TERM BEGAN

16. ACADEMIC CALENDAR

☐ SEMESTER
☐ QUARTER
☐ TRIMESTER
☒ CLOCK HOUR
☐ OTHER *(Explain)*

17. ADMISSIONS

	PAGE
a. STATE WHERE THE ADMISSION REQUIREMENTS CAN BE FOUND IN THE CATALOG OR OTHER ATTACHED LITERATURE	Catalog p-4-5

b. DOES THE INSTITUTION ADMIT ANY STUDENTS WITHOUT A HIGH SCHOOL DIPLOMA OR THE RECOGNIZED EQUIVALENT *(G.E.D. Certificate)* FOR THE PURPOSE OF OBTAINING A DEGREE OR CERTIFICATE? *(Check)* ☐ YES ☒ NO

IF YES, DOES THE INSTITUTION DETERMINE WHETHER THESE STUDENTS HAVE THE ABILITY TO BENEFIT FROM THE EDUCATION OR TRAINING OFFERED? *(Check)* ☐ YES ☐ NO

IF YES, ATTACH A COPY OF THE CRITERIA FOR DETERMINING WHETHER THESE STUDENTS HAVE THE ABILITY TO BENEFIT FROM THE TRAINING OFFERED.

18. TO BE COMPLETED BY ALL PUBLIC AND OTHER NONPROFIT INSTITUTIONS WHICH PUBLISH A CATALOG OR SIMILAR MATERIAL. ALSO TO BE COMPLETED BY ALL FOR-PROFIT INSTITUTIONS WHICH (1) GRANT A DEGREE, (2) ARE ACCREDITED AT THAT LEVEL OF OFFERING, AND (3) PUBLISH A CATALOG. ANY INSTITUTION NOT MEETING THESE CONDITIONS MUST COMPLETE ITEM 20 INSTEAD

STATE WHERE EACH OF THE FOLLOWING DEGREE, DIPLOMA, AND CERTIFICATE PROGRAMS CAN BE FOUND IN THE ATTACHED CATALOG. ENTER N/A IF NOT APPLICABLE

a. GRADUATE PROGRAMS *(Pages)* N/A	b. BACHELOR'S DEGREE PROGRAMS *(Pages)* N/A
c. ASSOCIATE DEGREE PROGRAMS *(Pages)* N/A	d. OTHER PROGRAMS *(Specify degree, or certificate awarded and length of time to complete in terms of semester, trimester, quarter, or clock hours if not listed in catalog) (Pages)* Two diplomas are awarded Catalog P.15

19. TO BE COMPLETED BY ANY INSTITUTION WHICH DID NOT COMPLETE ITEM 18. LIST ALL THE PROGRAMS OFFERED BY THE INSTITUTION AND STATE THEIR LENGTH. INDICATE WHETHER EACH PROGRAM LEADS TO A DEGREE OR CERTIFICATE

NAME OF PROGRAM	LENGTH OF PROGRAM			LEADS TO DEGREE OR CERTIFICATE *(Specify)*
	WEEKS	HOURS PER WEEK IF ON CLOCK HOUR BASIS	CREDITS IF ON SEMESTERS, QUARTERS, OR TRIMESTERS	
American Career Training - Travel School offers one program entitled "Basic Training for the Travel Industry" This program is divided into two courses:				
Course I Independent Study Course (minimum 200 clock hours)	aprox 26 weeks	aprox 8 hrs per week		Diploma
Course II Resident Training (minimum 120 clock hours)	aprox 3 weeks	aprox 40 hrs per week		Diploma

CERTIFICATION

I CERTIFY that to the best of my knowledge and belief, the information provided in the document is true and correct. I understand that providing false or misleading information may result in the denial of the institution's request for eligibility once it has been granted. I also understand that I may be subject to a fine or not more than $10,000 or imprisonment for not more than 5 years, or both, under provision of the United States Criminal Code.

SIGNATURE OF RESPONDENT	DATE March 11, 1985
TYPE NAME AND TITLE Joseph A. Calareso President	TELEPHONE NUMBER *(Include area code)* 946-5551 (305)

ACCREDITING COMMISSION
NATIONAL HOME STUDY COUNCIL
1601 - 18TH STREET, N.W. • WASHINGTON, D.C. 20009 • 202-234-5100

HESTER L TURNER Esq *Chairman*
ATTORNEY/CONSULTANT
JULES G FLEDER *Vice Chairman*
PRESIDENT
WESTLAWN SCHOOL OF YACHT DESIGN
JAMES E GODFREY
DIRECTOR
TRUCK MARKETING INSTITUTE
FRED F HARCLEROAD
PROFESSOR OF HIGHER EDUCATION
UNIVERSITY OF ARIZONA
JOHN D PHILLIPS
PRESIDENT
NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES
HAROLD P RODES
PRESIDENT EMERITUS
GENERAL MOTORS INSTITUTE
CARL W RUPPERT
PARTNER IN CHARGE
WASHINGTON D C OFFICE
PRICE WATERHOUSE
ROY O STUART
CHAIRMAN OF THE BOARD
ART INSTRUCTION SCHOOLS
WILLIAM L WRIGHT
PRESIDENT
AMERICAN SCHOOL

WILLIAM A FOWLER
EXECUTIVE SECRETARY
MICHAEL P LAMBERT
ASSISTANT SECRETARY

March 7, 1985

Mr. Joseph Calareso, President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

Dear Mr. Calareso:

This certifies that American Career Training Travel School of Pompano Beach, Florida is accredited by the Accrediting Commission of the National Home Study Council and is a member in good standing of the National Home Study Council.

The school was accredited on March 6, 1985. It has been found to meet or exceed the Commission's published academic and ethical standards.

The Accrediting Commission of the National Home Study Council is listed by the U.S. Secretary of Education as a "nationally recognized accrediting agency." The Accrediting Commission is also recognized by the Council on Postsecondary Accreditation.

Sincerely yours,

William A. Fowler

br

The nationally recognized accrediting agency for home study schools.

NATIONAL HOME STUDY COUNCIL
1601-18th STREET, N.W. • WASHINGTON, D. C. 20009 • 202-234-5100

Office of the Executive Director

March 7, 1985

Mr. Joseph Calareso, President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, FL 33064

Dear Joe:

We are certainly pleased to welcome you as a member of the National Home Study Council.

Your official Certificate of Accreditation will be presented to you at the Annual Conference, and we know you will proudly display it in your school. This Certificate will remain the property of the Accrediting Commission. Your school's name will also be listed in our Directory of Accredited Home Study Schools to be issued in July.

We are enclosing copies of the official seal, and you may use this seal and the fact of your accreditation in accordance with the provisions of Section 1 B 1 of the NHSC Business Standards.

We are enclosing a copy of the NHSC Business Standards which prescribe the minimum policies accredited schools must observe in all phases of school operations. You are obligated to observe these policies immediately, and you will want to study carefully Section III B on Cancellation and Settlement provisions to assure full compliance by your school.

Also, as an accredited school, you may, upon application, be entitled to be listed by the U.S. Education Department as an "eligible institution" for certain federal loan and grant programs.

You may wish to be listed as "eligible" and still not actively participate in the programs. In any case, you may want to write to the person below for more information:

Mr. John Uchima
Eligibility and Agency Evaluation Staff
Bureau of Postsecondary Education
U.S. Education Department
Washington, D.C. 20202

The nationally recognized professional association of home study schools—a nonprofit public service organization

We hope that you will participate actively in the Council, and everyone on the NHSC staff is here to serve you in any way we can. Be sure to attend as many events as possible, particularly the 59th Annual Conference, April 14-17, 1985, at the Don CeSar Hotel, St. Petersburg Beach, Florida.

We trust that you will find the NHSC and its services helpful, and please feel free to make suggestions for improvement at any time. Welcome to the NHSC!

Best wishes.

Sincerely yours,

wa Fowler
William A. Fowler

br
Enclosures

cc: David Peoples

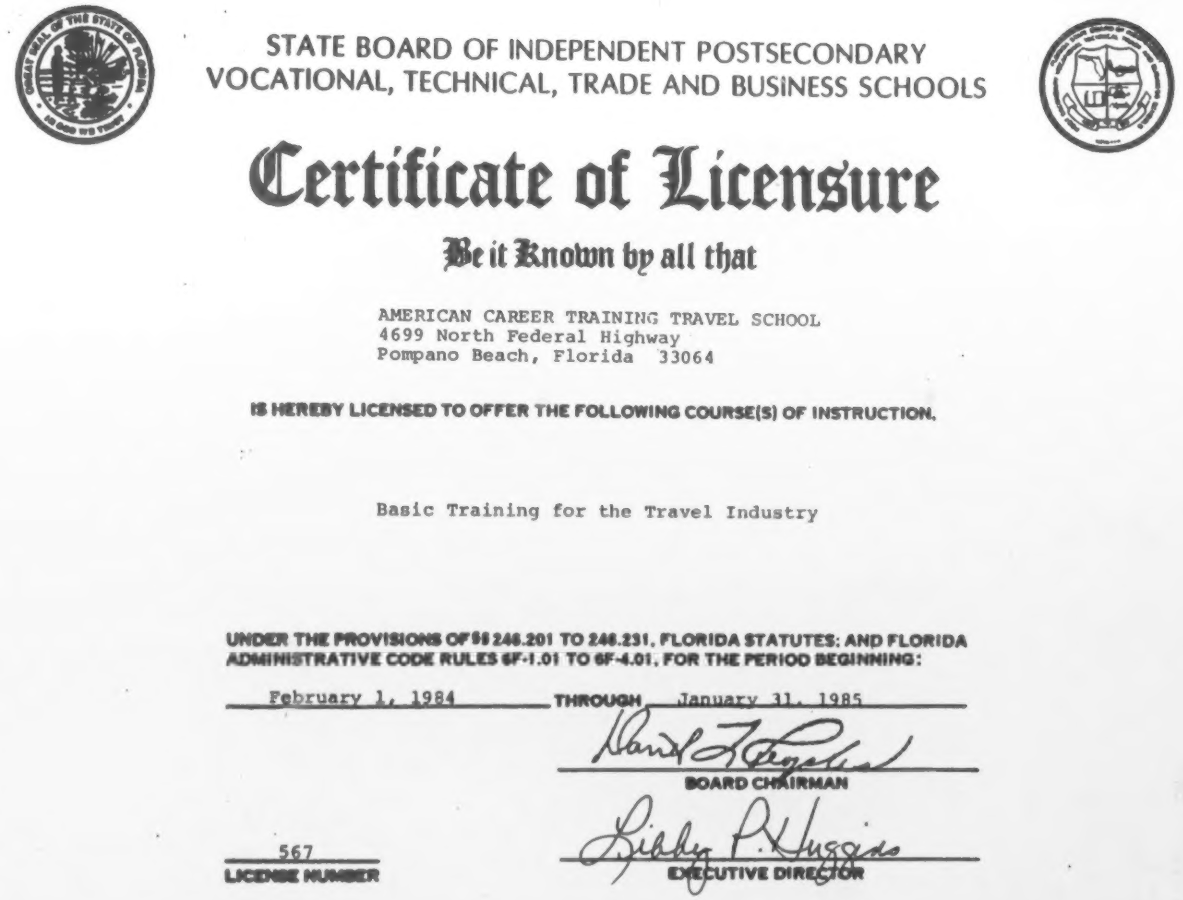
American
Career
Training

TRAVEL SCHOOL

Dade 947-9900 · Broward 946-5551 · Palm Beach 736-1402

4699 North Federal Highway, Suite 106, Pompano Beach, Florida 33064

Attached is a copy of our current school license and a memorandum showing the date for the renewal of our license.



STATE BOARD OF INDEPENDENT POSTSECONDARY
VOCATIONAL, TECHNICAL, TRADE AND BUSINESS SCHOOLS

Certificate of Licensure

Be it Known by all that

AMERICAN CAREER TRAINING TRAVEL SCHOOL
4699 North Federal Highway
Pompano Beach, Florida 33064

IS HEREBY LICENSED TO OFFER THE FOLLOWING COURSE(S) OF INSTRUCTION.

Basic Training for the Travel Industry

UNDER THE PROVISIONS OF §§ 246.201 TO 246.231, FLORIDA STATUTES; AND FLORIDA ADMINISTRATIVE CODE RULES 6F-1.01 TO 6F-4.01, FOR THE PERIOD BEGINNING:

February 1, 1984 **THROUGH** January 31, 1985

BOARD CHAIRMAN

567
LICENSE NUMBER

Libby P. Huggins
EXECUTIVE DIRECTOR

STATE BOARD OF INDEPENDENT POSTSECONDARY
VOCATIONAL, TECHNICAL, TRADE AND BUSINESS SCHOOLS
Department of Education, Tallahassee, Florida 32301
Telephone (904) 488-[illegible]

Ralph D. Turlington
Commissioner

Libby P. Huggins
Executive Director

M E M O R A N D U M

TO: American Career Training/Travel School, Pompano Beach

FROM: Libby P. Huggins, Executive Director Libby P. Huggins

DATE: February 25, 1985

RE: Placement on Agenda

Your school is scheduled on the agenda for the State Board. The meeting will be held:

PLACE: Holiday Inn, International Airport
"International Ballroom"
5750 T.G. Lee Road
Orlando, Florida 32812

DATE & TIME: March 15, 1985 at 8:30 a.m. - 5:00 p.m.

Please note this meeting conforms to the "Sunshine Law" and you are advised to attend. However, it is not required that you attend unless otherwise stated below. The following indicates the reason(s) for placement on the agenda:

☒ Consideration of application for renewal

☐ Consideration of application for new school

☐ Violations of §§246.201.236.231, Florida Statutes and/or Florida Administrative Rule 6F

☐ Revocation proceedings

☐ Complaint lodged against your school and/or agent

☐ Other:____________________________________

☐ Your attendance is requested.

Thank you.

LPH:cs

Affirmative action/equal opportunity employer

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

MAR 22 1985

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 15B.

Our Reference: OPE:OHEP:DEAE:OVEB-E-9

Accredited by: NHSC
Control: Prop.
EIN# 59-2221740

Mr. Joseph Calareso
President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

*Re:
American Career Training Travel School
4699 North Federal Highway
Pompano Beach, Florida 33064

INITIAL ELIGIBILITY

Eligible program: Basic Training for the Travel Industry

Dear Mr. Calareso:

It is a pleasure to inform you that the school listed above*, operating at the address indicated, is considered to be an "eligible institution" for the Guaranteed Student Loan Program.

Students attending the school may be eligible to apply for educational loans which are made by participating lenders to be insured by the Federal Government or guaranteed by a State or private nonprofit agency. The eligible student must be enrolled in an accredited postsecondary program of vocational or technical education, at least 300 clock hours in length, which is designed to provide occupational skills more advanced than those generally provided at the high school level and fit individuals for useful employment in recognized occupations. An eligible correspondence program is defined in the regulations as requiring not less than an average of 12 hours of preparation per week over any 12 week period and completion in not less than 6 months. The enclosed supplemental information and instructions contain brief information on the program and further procedures.

Please note that this eligibility pertains to the school listed at the above address as long as it remains accredited by a nationally recognized accrediting agency or association, continues to operate under the same ownership, and has not violated or failed to carry out any regulations prescribed by the Secretary of Education. Please notify this Office immediately of any name, address, or ownership change to assure continuation of the eligibility status of the school.

Sincerely yours,

John Uchima
Occupational/Vocational Eligibility Branch
Division of Eligibility and Agency Evaluation

Enclosures
cc: ILCB:CSS:OVEB

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 15C.

10-20-87

MR. JOSEPH CALARESO
PRESIDENT
AMERICAN CAREER TRAINING TRAVEL
SCHOOL
4699 N FEDERAL HWY
POMPANO BEACH, FL, 33064

INSTITUTIONAL ELIGIBILITY NOTICE

CORRESPONDENCE SCHOOL: ELIGIBILITY INCLUDES A NEW PROGRAM ACCREDITED JUNE 11, 1987.

Dear MR. CALARESO:

We are pleased to inform you that based upon the information included in your application (ED Form 1059), the Secretary of Education has determined that

AMERICAN CAREER TRAINING TRAVEL
SCHOOL

located at: 4699 N FEDERAL HWY, POMPANO BEACH, FL, 33064

satisfies the definition of an eligible

Vocational School (Section 435(c),HEA)

as set forth in the above noted sections of the Higher Education Act of 1965, as amended (HEA). For the purpose of this determination, the following educational programs constitute that part of the institution that satisfies the above definition(s)

BASIC TRAINING FOR THE TRAVEL INDUSTRY
HART SCH FOR PROF SEC-PROF SEC TRAINING

Thus, for this designation, the institution is the sum of the above-listed educational programs

As a result of the designation as an eligible institution, the institution is eligible to apply to participate in the following postsecondary education Federal assistance programs administered by the U.S. Department of Education -

- Higher Education Act of 1965, as amended:
  Title IV: Part B - Guaranteed Student Loan Program

This eligibility designation remains in effect so long as the Institution continues to satisfy all relevant statutory and regulatory eligiblity requirements and the enclosed Requirements for Maintaining Institutional Eligibility, which are incorporated into this Notice by this reference.

If you have any questions concerning the information included in this Notice or the enclosed Requirements for Maintaining Institutional Eligibility, please contact Occupational/Vocational Eligibility Branch of the Division of Eligibility and Certification at (202) 732-4913.

Sincerely,

Lois M. Moore

Lois M. Moore, Chief
Occupational/Vocational
Eligibility Branch
Division of Eligibility
and Certification

Eligibility Data:
- Main Campus OPE ID: 02295900
- Entity Number: 1592221740A1
- Eligibility effective: 09/28/87
- Academic Calendar: Clock Hours
- Control: 3
- Institution Type: 1
- Accreditation: NHSC

Enclosure
- Incorporated Requirements

CLB

AMERICAN CAREER TRAINING TRAVEL
SCHOOL
4699 N FEDERAL HWY
POMPANO BEACH, FL, 33064
OPE ID: 02295900

REQUIREMENTS FOR MAINTAINING INSTITUTIONAL ELIGIBILITY

These Requirements apply to any institution or school that participates in any postsecondary education Federal assistance program administered by the U.S. Department of Education

1. PROGRAM PARTICIPATION REQUIREMENTS. Designation as an eligible institution of higher education (1201(a) or 435(b) of the Higher Education Act of 1965, as amended (HEA)); a proprietary institution (481(b), HEA; a postsecondary vocational institutions (481(c), HEA); or a vocational school (435(c), HEA), DOES NOT MEAN that the institution or school is automatically eligible to participate in any of the listed Federal student financial assistance programs. NOR DOES IT MEAN that the institution or school is automatically eligible to receive funds under any of the listed programs. Specifically, in order to participate in the -

   - STUDENT FINANCIAL ASSISTANCE PROGRAMS authorized by Title IV of the HEA -- Pell Grants, Guaranteed Student Loans, Supplemental Educational Opportunity Grants, College Work-Study, Perkins Loan Program (formerly NDSL), Parent Loans for Undergraduate Students (PLUS), and Job Location and Development Program -- the institution or school must be certified by the Department of Education as having the requisite administrative capability and financial responsibility and the institution or school must execute a Program Participation Agreement in accordance with Student Assistance General Provisions, 34 CFR Part 668.11.

   - INSTITUTIONAL AID PROGRAMS authorized by Title III of the HEA -- Strengthening Program, Strengthening Historically Black Colleges & Universities, and Endowment Program -- and institution of higher education must be determined to be an eligible institution under two categories of eligibility criteria. Before applying for eligibility under Title III program criteria, an institution must satisfy the basic institutional eligibility requirements of section 312 of HEA and 34 CFR Part 624.

2. SCOPE OF ELIGIBILITY. The institution or school is eligible to apply for participation in only those programs that are listed in its Notice of Institutional Eligibility. The eligibility of an institution or school to participate in a Federal assistance program DOES NOT APPLY TO ANY EDUCATIONAL PROGRAM OFFERED BY THE INSTITUTION WHICH DOES NOT MEET ALL STATUTORY AND REGULATORY REQUIREMENTS FOR ELIGIBILITY.

REQUIREMENTS FOR MAINTAINING INSTITUTIONAL ELIGIBILITY

3. PERIOD OF ELIGIBILITY. The institution's or school's status as an eligible institution remains in effect so long as it continues to satisfy all the relevant statutory and regulatory requirements for institutional eligibility. Thus the institution loses its status as an eligible institution or program ON THE DATE THAT IT FAILS TO SATISFY ANY OF THE REQUIRED ELEMENTS on which ts status as an eligible institution was based, such as its accreditation or its legal authority to provide a program of postsecondary education in the State in which it is located.

4. NOTIFY ED OF INSTITUTIONAL CHANGES. The institution or school must report to the Division of Eligibility and Certification any change in the institution's name; address; ownership; type and/or level of course offering; loss of accreditation; loss of legal authority to offer programs of postsecondary education in the State in which it is located; locations at other than the main campus at which it offers educational services; and contracts with other institutions under which that other institution provides a portion of its educational programs. Failure to provide this information may lead to loss of eligibility.

5. INSTITUTION'S IDENTIFICATION NUMBER. The institution or school has been assigned an Office of Postsecondary Education (OPE) Identfication Number, which appears on the last page of the Institutional Eligibility Notice, following the signature block. This number should be used in all future correspondence with the Division of Eligibility and Certification.

6. ADDITIONAL INFORMATION. For each Program administered by the Department of Education for which the institution has been designated as eligible to apply for participation, please refer to the CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) or descriptive program information and the name and address of the Department of Education contact person. Each Federal assistance program is assigned a CFDA Number. (This Catalog is updated semi-annually by the Office of Management and Budget and is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C., 20402).

If you have any questions concerning these Requirements or the information contained in your Institutional Eligibility Notice, please write to:

U. S. Department of Education
Office of Postsecondary Education
Division of Eligibility and Certification
Washington, D. C. 20202

or call:
The Higher Education Institutional Eligibility Branch on (202) 732-3465; or the Occupational/Vocational Eligibility Branch on (202) 732-4906.

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

10-20-87

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 15D.

MR. JOSEPH CALARESO
PRESIDENT
AMERICAN CAREER TRAINING TRAVEL
SCHOOL
4699 N FEDERAL HWY
POMPANO BEACH, FL, 33064

INSTITUTIONAL ELIGIBILITY NOTICE

CORRESPONDENCE SCHOOL: ELIGIBILITY INCLUDES A NEW PROGRAM
ACCREDITED JUNE 11, 1987.

Dear MR. CALARESO:

We are pleased to inform you that based upon the information included in your application (ED Form 1059), the Secretary of Education has determined that

AMERICAN CAREER TRAINING TRAVEL
SCHOOL

located at: 4699 N FEDERAL HWY, POMPANO BEACH, FL, 33064

satisfies the definition of an eligible

Vocational School (Section 435(c),HEA)

as set forth in the above noted sections of the Higher Education Act of 1965, as amended (HEA). For the purpose of this determination, the following educational programs constitute that part of the institution that satisfies the above definition(s)

BASIC TRAINING FOR THE TRAVEL INDUSTRY
HART SCH FOR PROF SEC-PROF SEC TRAINING

Thus, for this designation, the institution is the sum of the above-listed educational programs

As a result of the designation as an eligible institution, the institution is eligible to apply to participate in the following postsecondary education Federal assistance programs administered by the U.S. Department of Education -

- Higher Education Act of 1965, as amended:
    Title IV: Part B - Guaranteed Student Loan Program

This eligibility designation remains in effect so long as the Institution continues to satisfy all relevant statutory and regulatory eligiblity requirements and the enclosed Requirements for Maintaining Institutional Eligibility, which are incorporated into this Notice by this reference.

If you have any questions concerning the information included in this Notice or the enclosed Requirements for Maintaining Institutional Eligibility, please contact Occupational/Vocational Eligibility Branch of the Division of Eligibility and Certification at (202) 732-4913.

Sincerely,

Lois M. Moore

Lois M. Moore, Chief
Occupational/Vocational
Eligibility Branch
Division of Eligibility
and Certification

Eligibility Data:
Main Campus OPE ID: 02295900
Entity Number: 1592221740A1
Eligibility effective: 09/28/87
Academic Calendar: Clock Hours
Control: 3
Institution Type: 1
Accreditation: NHSC

Enclosure
Incorporated Requirements

CLB

AMERICAN CAREER TRAINING TRAVEL
SCHOOL
4699 N FEDERAL HWY
POMPANO BEACH, FL, 33064
OPE ID: 02295900

REQUIREMENTS FOR MAINTAINING INSTITUTIONAL ELIGIBILITY

These Requirements apply to any institution or school that participates in any postsecondary education Federal assistance program administered by the U.S. Department of Education.

1. PROGRAM PARTICIPATION REQUIREMENTS. Designation as an eligible institution of higher education (1201(a) or 435(b) of the Higher Education Act of 1965, as amended (HEA)); a proprietary institution (481(b), HEA; a postsecondary vocational institutions (481(c), HEA); or a vocational school (435(c), HEA), DOES NOT MEAN that the institution or school is automatically eligible to participate in any of the listed Federal student financial assistance programs. NOR DOES IT MEAN that the institution or school is automatically eligible to receive funds under any of the listed programs. Specifically, in order to participate in the -

   - STUDENT FINANCIAL ASSISTANCE PROGRAMS authorized by Title IV of the HEA -- Pell Grants, Guaranteed Student Loans, Supplemental Educational Opportunity Grants, College Work-Study, Perkins Loan Program (formerly NDSL), Parent Loans for Undergraduate Students (PLUS), and Job Location and Development Program -- the institution or school must be certified by the Department of Education as having the requisite administrative capability and financial responsibility and the institution or school must execute a Program Participation Agreement in accordance with Student Assistance General Provisions, 34 CFR Part 668.11.

   - INSTITUTIONAL AID PROGRAMS authorized by Title III of the HEA -- Strengthening Program, Strengthening Historically Black Colleges & Universities, and Endowment Program -- and institution of higher education must be determined to be an eligible institution under two categories of eligibility criteria. Before applying for eligibility under Title III program criteria, an institution must satisfy the basic institutional eligibility requirements of section 312 of HEA and 34 CFR Part 624.

2. SCOPE OF ELIGIBILITY. The institution or school is eligible to apply for participation in only those programs that are listed in its Notice of Institutional Eligibility. The eligibility of an institution or school to participate in a Federal assistance program DOES NOT APPLY TO ANY EDUCATIONAL PROGRAM OFFERED BY THE INSTITUTION WHICH DOES NOT MEET ALL STATUTORY AND REGULATORY REQUIREMENTS FOR ELIGIBILITY.

REQUIREMENTS FOR MAINTAINING INSTITUTIONAL ELIGIBILITY

3. PERIOD OF ELIGIBILITY. The institution's or school's status as an eligible institution remains in effect so long as it continues to satisfy all the relevant statutory and regulatory requirements for institutional eligibility. Thus the institution loses its status as an eligible institution or program ON THE DATE THAT IT FAILS TO SATISFY ANY OF THE REQUIRED ELEMENTS on which ts status as an eligible institution was based, such as its accreditation or its legal authority to provide a program of postsecondary education in the State in which it is located.

4. NOTIFY ED OF INSTITUTIONAL CHANGES. The institution or school must report to the Division of Eligibility and Certification any change in the institution's name; address; ownership; type and/or level of course offering; loss of accreditation; loss of legal authority to offer programs of postsecondary education in the State in which it is located; locations at other than the main campus at which it offers educational services; and contracts with other institutions under which that other institution provides a portion of its educational programs. Failure to provide this information may lead to loss of eligibility.

5. INSTITUTION'S IDENTIFICATION NUMBER. The institution or school has been assigned an Office of Postsecondary Education (OPE) Identfication Number, which appears on the last page of the Institutional Eligibility Notice, following the signature block. This number should be used in all future correspondence with the Division of Eligibility and Certification.

6. ADDITIONAL INFORMATION. For each Program administered by the Department of Education for which the institution has been designated as eligible to apply for participation, please refer to the CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) or descriptive program information and the name and address of the Department of Education contact person. Each Federal assistance program is assigned a CFDA Number. (This Catalog is updated semi-annually by the Office of Management and Budget and is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C., 20402).

If you have any questions concerning these Requirements or the information contained in your Institutional Eligibility Notice, please write to:

U. S. Department of Education
Office of Postsecondary Education
Division of Eligibility and Certification
Washington, D. C. 20202

or call:
The Higher Education Institutional Eligibility Branch on (202) 732-3465; or the Occupational/Vocational Eligibility Branch on (202) 732-4906.

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

MAR 22 1985

Our Reference: OPE:OHEP:DEAE:OVEB-E-9

Accredited by: NHSC
Control: Prop.
EIN# 59-2221740
*Re:
American Career Training Travel School
4699 North Federal Highway
Pompano Beach, Florida 33064

INITIAL ELIGIBILITY

Eligible program: Basic Training for the Travel Industry

Mr. Joseph Calareso
President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

Dear Mr. Calareso:

It is a pleasure to inform you that the school listed above*, operating at the address indicated, is considered to be an "eligible institution" for the Guaranteed Student Loan Program.

Students attending the school may be eligible to apply for educational loans which are made by participating lenders to be insured by the Federal Government or guaranteed by a State or private nonprofit agency. The eligible student must be enrolled in an accredited postsecondary program of vocational or technical education, at least 300 clock hours in length, which is designed to provide occupational skills more advanced than those generally provided at the high school level and fit individuals for useful employment in recognized occupations. An eligible correspondence program is defined in the regulations as requiring not less than an average of 12 hours of preparation per week over any 12 week period and completion in not less than 6 months. The enclosed supplemental information and instructions contain brief information on the program and further procedures.

Please note that this eligibility pertains to the school listed at the above address as long as it remains accredited by a nationally recognized accrediting agency or association, continues to operate under the same ownership, and has not violated or failed to carry out any regulations prescribed by the Secretary of Education. Please notify this Office immediately of any name, address, or ownership change to assure continuation of the eligibility status of the school.

Sincerely yours,

John Uchima
Occupational/Vocational Eligibility Branch
Division of Eligibility and Agency Evaluation

Enclosures
cc: ILCB:CSS:OVEB

10-20-87
02295900

OSL OU

19. TO BE COMPLETED BY ANY INSTITUTION WHICH DID NOT COMPLETE ITEM 18. LIST ALL THE PROGRAMS OFFERED BY THE INSTITUTION AND STATE THEIR LENGTH. INDICATE WHETHER EACH PROGRAM LEADS TO A DEGREE OR CERTIFICATE

NAME OF PROGRAM	LENGTH OF PROGRAM			LEADS TO DEGREE OR CERTIFICATE *(Specify)*
	WEEKS	HOURS PER WEEK IF ON CLOCK HOUR BASIS	CREDITS IF ON SEMESTERS, QUARTERS, OR TRIMESTERS	
Hart School for Professional Secretaries'- Professional Secretarial Training	23.3 3	12 40	(home study)	Certificate

399.6 hrs.

23.3
12
466
233
279.6
120
399.6

40
3
120

Lic. 9-2[illegible]-8[illegible]
Acc. 10-19-8[illegible]
State 9-2[illegible]-[illegible]
N.J. Home Study 6-11-8[illegible]

CERTIFICATION

I CERTIFY that to the best of my knowledge and belief, the information provided in the document is true and correct. I understand that providing false or misleading information may result in the denial of the institution's request for eligibility once it has been granted. I also understand that I may be subject to a fine or not more than $10,000 or imprisonment for not more than 5 years, or both, under provision of the United States Criminal Code.

SIGNATURE OF RESPONDENT	DATE 8-19-87
TYPE NAME AND TITLE JOSEPH A. CALARESO, PRESIDENT/REGISTRAR	TELEPHONE NUMBER *(Include area co* 305 946 5551

ED FORM 1059

ACCREDITING COMMISSION
NATIONAL HOME STUDY COUNCIL
1601 - 18TH STREET, N.W. • WASHINGTON, D.C. 20009 • 202-234-5100

June 11, 1987

Mr. Joseph A. Calareso, President
A.C.T. Travel School
4699 North Federal Highway
Pompano Beach, FL 33064

HESTER L. TURNER, Esq., *Chairman*
ATTORNEY/CONSULTANT
ROY O. STUART, *Vice Chairman*
CHAIRMAN OF THE BOARD
ART INSTRUCTION SCHOOLS
WILLIAM K. HUNZEKER
MAJOR GENERAL
U.S. ARMY, RETIRED
DAVID L. PEOPLES
CHAIRMAN OF THE BOARD
SOUTHEASTERN ACADEMY
JOHN D. PHILLIPS
PRESIDENT
NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES
CARL W. RUPPERT
PARTNER-IN-CHARGE
WASHINGTON, D.C. OFFICE
PRICE WATERHOUSE
WILLIAM L. WRIGHT
PRESIDENT
AMERICAN SCHOOL

WILLIAM A. FOWLER
EXECUTIVE SECRETARY
MICHAEL P. LAMBERT
ASSISTANT SECRETARY
ELIZABETH M. ROCHE
ACCREDITING PROGRAM ASSISTANT

Dear Mr. Calareso:

The Accrediting Commission of the National Home Study Council met on June 5-6, 1987 and it is a pleasure to advise you that it has confirmed the approval of the Hart School for Professional Secretaries' new Secretarial course.

We join with the members of the Accrediting Commission in extending our congratulations and best wishes for your success with this new program.

We look forward to receiving a copy of the final edition of the Secretarial course when it is available.

Sincerely yours,

William A. Fowler

br

cc: Dr. Hester L. Turner
    Joseph C. Luman, Esq.

The nationally recognized accrediting agency for home study schools.

FLORIDA DEPARTMENT OF EDUCATION
Betty Castor
Commissioner of Education

September 22, 1987

Mr. Joseph A. Calareso
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

RE: COURSE(S)-ADDITIONS/DELETIONS/AMENDMENTS

Dear Mr. Calareso:

The State Board meeting in regular session on September 18, 1987 approved your request for the following:

The Hart School for Professional Secretaries -
Professional Secretarial Training - 400 Hours

Florida Administrative Code Rule 6F-2.005 states that when a school adds, deletes or amends a course or program, it shall publish a revised catalog or publish a printed supplement to be physically attached to the catalog.

Best wishes in the continued growth of your school.

Sincerely,

Samuel L Ferguson
Samuel L. Ferguson
Executive Director
State Board of Independent Postsecondary
Vocational, Technical, Trade and Business
Schools

SLF:rw

[redacted]assee, Florida 32399
[redacted]ive action/equal opportunity employer

BASIC TRAINING
FOR THE HART SECRETARY

1 4. COURSE I OUTLINE

INDEPENDENT STUDY: (approx. 280 clock hours)

1. **The Secretarial Profession** ..... (approx. 5 clock hours)
This lesson discusses the history of the secretarial profession, as well as the growing need and tremendous career opportunities available for secretaries. Also examined are the qualities of a good secretary and methods for developing proper study habits.

2. **The Office Environment** .... (approx. 5 clock hours)
This lesson orients the student to an office, stressing the importance of developing a routine in work activities and of approaching work with a positive attitude. Proper time management and problem solving techniques are also discussed.

3. **Communication** .... (approx. 5 clock hours)
The importance of communication, the four chief forms of communication and effective means of communicating with others are examined in this lesson. The student will learn how to improve reading and speaking skills and how to handle conflict and criticism.

4. **Telephone Techniques** .... (approx. 5 clock hours)
This lesson looks at ways to improve one's telephone voice and also discusses telephone courtesy and etiquette, as well as the correct ways to handle, screen and place phone calls.

5. **Resources and References** ..... (approx. 6 clock hours)
This lesson discusses the various research sources and references with which the student must become familiar. Among sources considered are people, desk references, library resources, professional directories and indexes.

6. **Handling the Mail** .... (approx. 6 clock hours)
This lesson studies the correct handling of incoming and outgoing mail, the importance of processing mail quickly and the various methods of organizing and sending mail.

7. **Filing and Records Management** ....
(approx. 8 clock hours)
In this lesson, the student will learn different methods of filing,

types of files, filing supplies and how files and records are handled and managed from beginning to end.

8. **English Composition** .... (approx. 8 clock hours)
The importance of writing well is examined in this lesson. The parts of speech, the rules of punctuation and capitalization and ways to build your vocabulary are also covered.

9. **Business Correspondence/Speedwriting** .... (approx. 80 clock hours)

This lesson discusses the composition and preparation of effective business correspondence and examines various letter forms and styles, the importance of proofreading and the purpose of memoranda. Also included with this lesson is a Speedwriting Shorthand textbook accompanied by a Speedwriting Shorthand workbook. The student is expected to work through the lessons, building speed at notetaking and transcription.

10. **Arranging the Business Trip** ... (approx. 6 clock hours)
This lesson considers the importance of making good travel arrangements for one's employer. Under consideration: the objectives in making the arrangements, the importance of both company travel policies and employer's personal preferences, using a travel agent and scheduling reservations.

11. **Handling Office Finances** .... (approx. 10 clock hours)
This lesson introduces the student to some of the basic procedures involved in handling office finances, including: what is involved in cash transactions, how businesses set fees and prices for goods and services, basic bookkeeping procedures, handling of petty cash, payroll preparation and banking procedures, billing procedures and methods of paying bills.

12. **Office Machines/Typing for Everyone** .... (approx. 110 clock hours)
In this lesson, the student is introduced to the various types of office equipment encountered in a professional career. Foremost is the typewriter, the universal office machine which is found in almost every office setting. The student is expected to practice and become proficient on the Royal electric typewriter included with this lesson.

Also included in the Independent Study program are five books on "Your Professional Image."

Book 1 **Grooming** .... (approx. 5 clock hours)
The focus of the first book is on personal grooming, introducing the student to different techniques for body, skin and hair care. Also studied are ways in which nutrition, diet and exercise contribute to the complete Professional Image of THE HART SECRETARY.

Book 2 **Glamour** .... (approx. 5 clock hours)
This book examines the importance of well-applied make-up in creating a Professional Image. Step-by-step instructions on choosing and applying make-up, make-up "tricks," choosing the most flattering hair style and foot care are also covered.

Book 3 **Color and You** .... (approx. 5 clock hours)
In this book, the focus is on color theory, including determination of seasonal color groups according to personal coloring, relationship between color and emotions and the link between seasonal color groups and personality.

Book 4 **Putting It All Together** ... (approx. 5 clock hours)
This book guides the student through the steps of figure analysis, discusses fashion colors, styles and lines to make the most of one's figure and helps the student evaluate his or her own clothes so that he or she can plan a quality wardrobe to complete the Professional Image.

Book 5 **Getting Started** .... (approx 6 clock hours)
This final book guides the student through the process of finding employment as a secretary. The student is aided in identifying marketable skills, is given step-by-step instructions on preparing a resume and cover letter and is taught various methods and strategies for conducting a job search. The book also prepares the student for a successful job interview.

15. COURSE II OUTLINE

(Monday through Friday 9 A.M. - 6 P.M. 40 hrs./week for 3 weeks, minimum 120 clock hours)

RESIDENT TRAINING

Upon completion of Course I, the Independent Study Course, the student will be invited and scheduled to attend Resident Training.

Classes are conducted and supervised by our own HART SCHOOL staff of highly qualified, knowledgeable and experienced specialists in the Secretarial Field.

Everything the student has studied and learned in Course I, the Independent Study Course, is fine tuned with practical on-the-job-type training. Class discussions and realistic role playing form an integral part of the Resident Training format.

In addition, from time to time, special arrangements are planned to invite guest speakers from the business community who give helpful, career-related talks and seminars.

In order to provide our graduates with an "edge" in the Secretarial/Clerical Job Market, we have included another exclusive feature, a comprehensive Professional Image and Employability Skills Course which will be tailored to each student's personal needs.

Specifically the following areas will be covered at Resident Training:

Week 1 .... (approx. 40 clock hours)

Review of filing techniques	(approx. 3 clock hours)
Developing telephone skills	(approx. 3 clock hours)
Developing communication skills	(approx. 3 clock hours)
Handling the mail	(approx. 3 clock hours)
Time management	(approx. 3 clock hours)
Speedwriting	(approx. 5 clock hours)
Typing/Word Processing	(approx. 20 clock hours)

The basic skills are used in a realistic office-like setting. The student can actually practice the various types of filing methods and perfect his/her telephone etiquette. The student will work on communication skills, how to handle incoming and outgoing mail and effective time management techniques. Speedwriting skills will be developed. The student will also practice building typing speed and be introduced to word processisng.

Week 2 .... (approx. 40 clock hours)

Review of making travel arrangements	(approx. 3 clock hours)
Office finances	(approx. 3 clock hours)
Office equipment	(approx. 3 clock hours)
English composition	(approx. 3 clock hours)
Resources and references	(approx. 3 clock hours)
Speedwriting	(approx. 5 clock hours)
Typing/Word Processing	(approx. 20 clock hours)

The student becomes acquainted with office machines and equipment, the handling of petty cash and other office finances, how to make use of resources and references, and learns to make travel arrangements and to prepare business correspondence. Speedwriting and transcription skills will be developed. The student will practice to build typing speed and build word processing skills.

Week 3 .... (approx. 40 clock hours)

Speedwriting	(approx. 5 clock hours)
Typing/Word Processing	(approx. 20 clock hours)
Professional Image and Employability Skills Course	(approx. 15 clock hours)

Speedwriting, typing speed and word processing skills will continue to be developed. The first part of the Professional Image and Employability Skills course will provide the class with some basic information on Professional Image and general appearance. The second part of the instruction will be directed toward each student to enable him or her, with the aid of the instructor, to develop his/her own Professional Image Guide to:

a) Color Analysis
b) Appearance
c) Personality
d) Wardrobe
e) Self-Confidence
f) Professional Self Promotion
g) Attitude and Conduct During the Job Interview
h) Self-Directed Job Search Techniques
i) The "Edge" in Landing the Job

16. SKILLS TO BE LEARNED

Course I - the Independent Study Course provides the student with the basics of the Secretarial Field. Specifically, the student will learn the following:

a) How to Study at Home
b) The Office Environment
c) Written and Oral Communication
d) Time Management
e) Telephone Skills

f) Filing Techniques
g) Mail-handling Techniques
h) Use of References and Resources
i) Handling of Office Finances
j) Use of office equipment
k) Typing
l) Speedwriting

Course II - Resident /Training in addition to practical on-the-job-type exercises of the-material learned in Course I, provides the student with instruction on the following:

a) Typing and Word Processing
b) Speedwriting
c) The development of a Complete Professional Image and Employability Skills

ACCREDITING COMMISSION
NATIONAL HOME STUDY COUNCIL
1601 - 18TH STREET, N.W. • WASHINGTON, D.C. 20009 • 202-234-5100

March 7, 1985

HESTER L. TURNER Esq. *Chairman*
ATTORNEY/CONSULTANT
JULES G. FLEDER *Vice Chairman*
PRESIDENT
WESTLAWN SCHOOL OF YACHT DESIGN
JAMES E. GODFREY
DIRECTOR
TRUCK MARKETING INSTITUTE
FRED F. HARCLEROAD
PROFESSOR OF HIGHER EDUCATION
UNIVERSITY OF ARIZONA
JOHN D. PHILLIPS
PRESIDENT
NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES
HAROLD P. RODES
PRESIDENT EMERITUS
GENERAL MOTORS INSTITUTE
CARL W. RUPPERT
PARTNER IN CHARGE
WASHINGTON, D.C. OFFICE
PRICE WATERHOUSE
ROY O. STUART
CHAIRMAN OF THE BOARD
ART INSTRUCTION SCHOOLS
WILLIAM L. WRIGHT
PRESIDENT
AMERICAN SCHOOL

WILLIAM A. FOWLER
EXECUTIVE SECRETARY
MICHAEL P. LAMBERT
ASSISTANT SECRETARY

Mr. Joseph Calareso, President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

Dear Mr. Calareso:

This certifies that American Career Training Travel School of Pompano Beach, Florida is accredited by the Accrediting Commission of the National Home Study Council and is a member in good standing of the National Home Study Council.

The school was accredited on March 6, 1985. It has been found to meet or exceed the Commission's published academic and ethical standards.

The Accrediting Commission of the National Home Study Council is listed by the U.S. Secretary of Education as a "nationally recognized accrediting agency." The Accrediting Commission is also recognized by the Council on Postsecondary Accreditation.

Sincerely yours,

WA Fowler
William A. Fowler

br

The nationally recognized accrediting agency for home study schools.

NATIONAL HOME STUDY COUNCIL
1601-18th STREET, N.W. • WASHINGTON, D. C. 20009 • 202-234-5100

Office of the Executive Director

March 7, 1985

Mr. Joseph Calareso, President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, FL 33064

Dear Joe:

We are certainly pleased to welcome you as a member of the National Home Study Council.

Your official Certificate of Accreditation will be presented to you at the Annual Conference, and we know you will proudly display it in your school. This Certificate will remain the property of the Accrediting Commission. Your school's name will also be listed in our Directory of Accredited Home Study Schools to be issued in July.

We are enclosing copies of the official seal, and you may use this seal and the fact of your accreditation in accordance with the provisions of Section 1 B 1 of the NHSC Business Standards.

We are enclosing a copy of the NHSC Business Standards which prescribe the minimum policies accredited schools must observe in all phases of school operations. You are obligated to observe these policies immediately, and you will want to study carefully Section III B on Cancellation and Settlement provisions to assure full compliance by your school.

Also, as an accredited school, you may, upon application, be entitled to be listed by the U.S. Education Department as an "eligible institution" for certain federal loan and grant programs.

You may wish to be listed as "eligible" and still not actively participate in the programs. In any case, you may want to write to the person below for more information:

> Mr. John Uchima
> Eligibility and Agency Evaluation Staff
> Bureau of Postsecondary Education
> U.S. Education Department
> Washington, D.C. 20202

Mr. Calareso
Page Two
March 7, 1985

We hope that you will participate actively in the Council, and everyone on the NHSC staff is here to serve you in any way we can. Be sure to attend as many events as possible, particularly the 59th Annual Conference, April 14-17, 1985, at the Don CeSar Hotel, St. Petersburg Beach, Florida.

We trust that you will find the NHSC and its services helpful, and please feel free to make suggestions for improvement at any time. Welcome to the NHSC!

Best wishes.

Sincerely yours,

WA Fowler
William A. Fowler

br
Enclosures

cc: David Peoples

J.S.

DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

FORM APPROVED
O.M.B. NO. 1840-0098
APPROVAL EXPIRES: 7/31/86

REQUEST FOR INSTITUTIONAL ELIGIBILITY FOR PROGRAMS

(Under the Higher Education Act of 1965, as amended)

(Authority: 20 U.S.C. 1085, 1088, 1141)

FOR ED USE ONLY	
DATE RECEIVED 3-11-85	DATE REVIEWED 3-22-85
REVIEWED BY	
REASON	

This application is authorized under the Higher Education Act of 1965, as amended, P.L. 96-374. If you do not complete this form, you will not be eligible for funding under the titles of the Act.

1. NAME OF INSTITUTION
American Career Training-
Travel School

2. ADDRESS *(Include ZIP code)*
4699 N. Federal Hwy.
Pompano Beach, FL 33064

3. EMPLOYER IDENTIFICATION NO. *(Assigned by IRS)*
59-222-1740A1
[illegible] 2-30-87

4. OTHER OR FORMER NAMES OF THE INSTITUTION
N/A

5. CENTRAL OFFICES, BRANCHES, AND OTHER LOCATIONS

a. IF THE INSTITUTION IS A SEPARATELY ACCREDITED OR SEPARATELY ORGANIZED BRANCH OF AN INSTITUTION, GIVE THE NAME AND ADDRESS OF THE PARENT INSTITUTION OR CENTRAL OFFICE

N/A

b. IF YOUR INSTITUTION OFFERS POSTSECONDARY EDUCATIONAL PROGRAMS AT ANY LOCATIONS OTHER THAN THE ADDRESS LISTED IN ITEM 2, LIST THE ADDRESSES OF THESE OTHER LOCATIONS *(Attach an additional sheet, if necessary)*

N/A

6. DATE POSTSECONDARY INSTRUCTION FIRST GIVEN *(Month, day and year)*
Jan. 20, 1983

7. CONTROL *(Check one)*
☐ PUBLIC ☐ NONPROFIT* ☒ PROPRIETARY *(Private, for profit)*
**(If nonprofit is checked, attach a copy of the document from the IRS certifying the institution as one to which contributions are tax deductible under Section 501 (c)(3) of the Internal Revenue Code)*

8. IF A NONPROFIT INSTITUTION, DOES THE INSTITUTION TRAIN INDIVIDUALS FOR RELIGIOUS VOCATIONS OR TO BE TEACHERS OF RELIGION?
☐ YES ☐ NO N/A

9. SUPPLY THE NAME OF THE AGENCY IN YOUR STATE BY WHICH THE INSTITUTION IS LEGALLY AUTHORIZED TO PROVIDE A PROGRAM OF EDUCATION BEYOND SECONDARY EDUCATION IN THE STATE *(Attach a copy of current authorization)* State Board of Independent Postsecondary, Vocational, Technical, Trade and Business Schools, Dep't of Education, Tall, FL 32301

10. ACCREDITATION AND ITS ALTERNATIVES

a. ☒ IF THE INSTITUTION IS ACCREDITED OR PREACCREDITED BY A NATIONALLY RECOGNIZED ACCREDITING AGENCY OR AGENCIES, CHECK AND PROVIDE A COPY OR COPIES OF THE ACCREDITATION NOTICES. A LIST OF THE RECOGNIZED ACCREDITING AGENCIES IS ENCLOSED. American Career Training - Travel School is accredited by the National Home Study Council. See attached letter

b. ☐ IF THE INSTITUTION'S APPLICATION FOR ACCREDITATION IS ALREADY ACCEPTED BY A NATIONALLY RECOGNIZED ACCREDITING AGENCY, BUT THE INSTITUTION SEEKS ELIGIBILITY TO MEET A FUNDING DEADLINE OF THE DEPARTMENT OF EDUCATION BASED, IN PART, ON THE SECRETARY'S MAKING AN ALTERNATIVE DETERMINATION OF SATISFACTORY ASSURANCE, CHECK AND PROVIDE THE DOCUMENTS REQUESTED IN THE ATTACHED GUIDELINE.

c. ☐ IF THE ELIGIBILITY REQUEST IS PARTLY BASED ON THE THREE-INSTITUTIONAL-CERTIFICATION METHOD, CHECK AND PROVIDE ON A SEPARATE PAGE THE INFORMATION REQUESTED IN THE ATTACHED NOTICE.

d. ☐ IF THE INSTITUTION IS A PUBLIC POSTSECONDARY VOCATIONAL INSTITUTION APPROVED BY A STATE AGENCY RECOGNIZED BY THE SECRETARY AS A RELIABLE AUTHORITY AS TO THE QUALITY OF PUBLIC POSTSECONDARY VOCATIONAL EDUCATION IN YOUR STATE, CHECK AND ATTACH A COPY OF THE APPROVAL NOTICE. A LIST OF THE RECOGNIZED STATE AGENCIES IS ENCLOSED.

e. ☐ IF THE INSTITUTION IS A FLIGHT SCHOOL, OR IF IT OFFERS COURSES IN FLIGHT TRAINING, CHECK. ATTACH A COPY OF THE INSTITUTION'S FAA CERTIFICATION.

11 IF A FOR-PROFIT INSTITUTION, LIST THE NAMES AND ADDRESSES OF THE OWNER, MAJOR STOCKHOLDERS, OR PARENT CORPORATION	PERCENT OF OWNERSHIP
John Calareso 11460 NW 31 St. Coral Springs, FL 33065	33 1/3%
Joseph A. Calareso 10108 NW 1 Manor Coral Springs, FL 33065	33 1/3%
James D. Calareso 1365 Savoyard Way West Palm Beach, FL 33411	33 1/3%
	%

12 ARE COMMISSIONED SALESMEN EMPLOYED TO RECRUIT STUDENTS?

☒ YES ☐ NO

13. IS THERE ANY LEGAL ACTION PENDING AGAINST THE INSTITUTION BY A FEDERAL, STATE, OR LOCAL PUBLIC AGENCY? *(If yes, give details on a separate page)*

☐ YES ☒ NO

14 PROVIDE THE FOLLOWING:

a. MOST RECENT CATALOG
b. REFUND POLICY *(If not in catalog)*
c. STUDENT CONTRACT OR ENROLLMENT AGREEMENT *(For profit institutions ONLY)*
d. CURRENT PROMOTIONAL LITERATURE *(For-profit institutions ONLY)*

15. ENROLLMENT *(Number for most recent academic term available)* approx. 900 students are in

a. FULL-TIME the process of completing their home-study lessons

b. AT LEAST HALF-TIME, BUT LESS THAN FULL-TIME

c. LESS THAN HALF-TIME

d. DATE ON WHICH ACADEMIC TERM BEGAN

16. ACADEMIC CALENDAR

☐ SEMESTER
☐ QUARTER
☐ TRIMESTER
☒ CLOCK HOUR
☐ OTHER *(Explain)*

17 ADMISSIONS

a STATE WHERE THE ADMISSION REQUIREMENTS CAN BE FOUND IN THE CATALOG OR OTHER ATTACHED LITERATURE

PAGE Catalog p-4-5

b DOES THE INSTITUTION ADMIT ANY STUDENTS WITHOUT A HIGH SCHOOL DIPLOMA OR THE RECOGNIZED EQUIVALENT *(G.E.D. Certificate)* FOR THE PURPOSE OF OBTAINING A DEGREE OR CERTIFICATE? *(Check)*

☐ YES ☒ NO

IF YES, DOES THE INSTITUTION DETERMINE WHETHER THESE STUDENTS HAVE THE ABILITY TO BENEFIT FROM THE EDUCATION OR TRAINING OFFERED? *(Check)*

☐ YES ☐ NO

IF YES, ATTACH A COPY OF THE CRITERIA FOR DETERMINING WHETHER THESE STUDENTS HAVE THE ABILITY TO BENEFIT FROM THE TRAINING OFFERED.

18 TO BE COMPLETED BY ALL PUBLIC AND OTHER NONPROFIT INSTITUTIONS WHICH PUBLISH A CATALOG OR SIMILAR MATERIAL. ALSO TO BE COMPLETED BY ALL FOR-PROFIT INSTITUTIONS WHICH (1) GRANT A DEGREE, (2) ARE ACCREDITED AT THAT LEVEL OF OFFERING, AND (3) PUBLISH A CATALOG. ANY INSTITUTION NOT MEETING THESE CONDITIONS MUST COMPLETE ITEM 20 INSTEAD

STATE WHERE EACH OF THE FOLLOWING DEGREE, DIPLOMA, AND CERTIFICATE PROGRAMS CAN BE FOUND IN THE ATTACHED CATALOG. ENTER N/A IF NOT APPLICABLE

a GRADUATE PROGRAMS *(Pages)* N/A	b. BACHELOR'S DEGREE PROGRAMS *(Pages)* N/A
c ASSOCIATE DEGREE PROGRAMS *(Pages)* N/A	d. OTHER PROGRAMS *(Specify degree, or certificate awarded and length of time to complete in terms of semester, trimester, quarter, or clock hours if not listed in catalog) (Pages)* Two diplomas are awarded Catalog P.15

19. TO BE COMPLETED BY ANY INSTITUTION WHICH DID NOT COMPLETE ITEM 18. LIST ALL THE PROGRAMS OFFERED BY THE INSTITUTION AND STATE THEIR LENGTH. INDICATE WHETHER EACH PROGRAM LEADS TO A DEGREE OR CERTIFICATE

NAME OF PROGRAM	LENGTH OF PROGRAM			LEADS TO DEGREE OR CERTIFICATE *(Specify)*
	WEEKS	HOURS PER WEEK IF ON CLOCK HOUR BASIS	CREDITS IF ON SEMESTERS, QUARTERS, OR TRIMESTERS	
American Career Training - Travel School offers one program entitled "Basic Training for the Travel Industry" This program is divided into two courses:				
Course I Independent Study Course (minimum 200 clock hours)	aprox 26 weeks	aprox 8 hrs per week		Diploma
Course II Resident Training (minimum 120 clock hours)	aprox 3 weeks	aprox 40 hrs per week		Diploma

CERTIFICATION

I CERTIFY that to the best of my knowledge and belief, the information provided in the document is true and correct. I understand that providing false or misleading information may result in the denial of the institution's request for eligibility once it has been granted. I also understand that I may be subject to a fine or not more than $10,000 or imprisonment for not more than 5 years, or both, under provision of the United States Criminal Code.

SIGNATURE OF RESPONDENT	DATE March 11, 1985
TYPE NAME AND TITLE Joseph A. Calareso President	TELEPHONE NUMBER *(Include area cod* 946-5551 (305)

American
Career
Training

TRAVEL SCHOOL
Dade 947-9900 · Broward 946-5551 · Palm Beach 736-1402

4699 North Federal Highway, Suite 106, Pompano Beach, Florida 33064

Attached is a copy of our current school license and a memorandum showing the date for the renewal of our license.

STATE BOARD OF INDEPENDENT POSTSECONDARY
VOCATIONAL, TECHNICAL, TRADE AND BUSINESS SCHOOLS

Certificate of Licensure

Be it Known by all that

AMERICAN CAREER TRAINING TRAVEL SCHOOL
4699 North Federal Highway
Pompano Beach, Florida 33064

IS HEREBY LICENSED TO OFFER THE FOLLOWING COURSE(S) OF INSTRUCTION.

Basic Training for the Travel Industry

UNDER THE PROVISIONS OF §§ 246.201 TO 246.231, FLORIDA STATUTES; AND FLORIDA ADMINISTRATIVE CODE RULES 6F-1.01 TO 6F-4.01, FOR THE PERIOD BEGINNING:

February 1, 1984 **THROUGH** January 31, 1985

BOARD CHAIRMAN

Libby P. Huggins

EXECUTIVE DIRECTOR

567

LICENSE NUMBER

STATE BOARD OF INDEPENDENT POSTSECONDARY
VOCATIONAL, TECHNICAL, TRADE AND BUSINESS SCHOOLS
Department of Education, Tallahassee, Florida 32301
Telephone (904) 488-9504

Ralph D. Turlington
Commissioner

Libby P. Huggins
Executive Director

MEMORANDUM

TO: American Career Training/Travel School, Pompano Beach

FROM: Libby P. Huggins, Executive Director Libby P. Huggins

DATE: February 25, 1985

RE: Placement on Agenda

Your school is scheduled on the agenda for the State Board. The meeting will be held:

PLACE: Holiday Inn, International Airport
"International Ballroom"
5750 T.G. Lee Road
Orlando, Florida 32812

DATE & TIME: March 15, 1985 at 8:30 a.m. - 5:00 p.m.

Please note this meeting conforms to the "Sunshine Law" and you are advised to attend. However, it is not required that you attend unless otherwise stated below. The following indicates the reason(s) for placement on the agenda:

☒ Consideration of application for renewal

☐ Consideration of application for new school

☐ Violations of §§246.201.236.231, Florida Statutes and/or Florida Administrative Rule 6F

☐ Revocation proceedings

☐ Complaint lodged against your school and/or agent

☐ Other: ______________________________

☐ Your attendance is requested.

Thank you.

LPH:cs

Affirmative action/equal opportunity employer

American Career Training
Travel School
Administrative Office & Education Center
4699 North Federal Highway, Suite 106, Pompano Beach, Florida 33064
(305) 946-5551

ENROLLMENT AGREEMENT

PLEASE PRINT

APPLICANT'S FULL NAME ______________________________ DATE ________

ADDRESS ______________________ (# STREET) ____________ (CITY) ________ (STATE) ______ (ZIP)

TELEPHONE ____________ AGE ________ DATE OF BIRTH ______________ SOC. SEC. # ______________

REGISTRAR:

I hereby apply for enrollment with American Career Training - Travel School (A.C.T.) for the course "Basic Training for the Travel Industry." I have had the course clearly and completely explained to me. I fully understand that if my enrollment agreement is accepted by A.C.T., it shall be deemed a binding contract, and I shall receive:

1. A completely filled out copy of this Enrollment Agreement signed by me, and by your representative;
2. The A.C.T. - Travel School Catalog;
3. A complete set of 20 lessons that comprise the Independent Study Course mailed to me in groups of 3, as study progress is maintained and provided tuition payments (if applicable) are current;
4. 120 clock hours of Resident Training; to be completed within 15 months from the acceptance date of the Enrollment Agreement;
5. Employment Assistance, however no guarantee of employment is made.

A.C.T. — TRAVEL SCHOOL'S
"BASIC TRAINING FOR THE TRAVEL INDUSTRY"

COURSE I - 20 lessons/approx. 200 Clock Hours
INDEPENDENT STUDY COURSE

I. 20 lessons of Independent Study, as described in the catalog, which include 20 self-addressed envelopes, 20 tests, summaries and Final Exams, where appropriate. It is estimated that each lesson will take 1 week or a total of 20 weeks to complete Course I.

II. Reinforced binders for easy reference and filing.

III. U.S. Map

IV. World Map

V. Diploma

COURSE II - 120 Clock Hours
(8 hrs/day, 5 days/wk, 3 wks.)
RESIDENT TRAINING COURSE

I. Classes are held every Monday through Friday 9:00 A.M. to 6:00 P.M. (except for school holidays).

II. Independent Study Course must be successfully completed prior to attending Resident Training.

III. The "Total Course Price" must be paid in full prior to Resident Training.

IV. All expenses related to resident training, travel, living accommodations, meals etc. are borne by student.

V. Diploma

I. The "Total Course Price" is $1,295.00 which includes $800.00 for Course I (Independent Study Course), $495.00 for Course II (Resident Training) and all related teaching materials. It does not include any travel expenses, living accommodations or meals, etc. Our tuition policy normally requires the full $1,295.00 be paid at time of enrollment. (Cash, CK., Visa or M.C.) However, if you must defer a portion of the tuition fee, you may select a variety of deferred payment plans offered by A.C.T. Such plans can be for up to one year with no finance or interest charges.

TUITION

(a) CASH PRICE $__________

(b) CASH DOWN PAYMENT $__________

(c) UNPAID BALANCE
OF CASH PRICE $__________
[(a) minus (b)]

You will pay the Unpaid Balance of Cash Price as shown above as follows:

ANNUAL PERCENTAGE RATE: The cost of your credit as a yearly rate	**FINANCE CHARGE** The dollar amount the credit will cost you.	**Amount Financed** The amount of credit provided to you or on your behalf	**Total of Payments** The amount you will have paid after you have made all payments as scheduled	**Total Sales Price** The total cost of your purchase on credit, including your down payment of $
%	$	$	$	$

YOUR PAYMENT SCHEDULE WILL BE:

Number of payments	Amount each payment	When payments are due
	$	Beginning and on the same day of each thereafter

The "Total Course Price" must be paid in full prior to attending Resident Training. You may prepay in full at any time.

I. The "Total Course Price" is $1,295.00 which includes $800.00 for Course I (Independent Study Course), $495.00 for Course II (Resident Training) and all related teaching materials. It does not include any travel expenses, living accommodations or meals, etc. Our tuition policy normally requires the full $1,295.00 be paid at time of enrollment. (Cash, CK., Visa or M.C.) However, if you must defer a portion of the tuition fee, you may select a variety of deferred payment plans offered by A.C.T. Such plans can be for up to one year with no finance or interest charges.

TUITION

(a) CASH PRICE $________

(b) CASH DOWN PAYMENT $________

(c) UNPAID BALANCE OF CASH PRICE ((a) minus (b)) $________

You will pay the Unpaid Balance of Cash Price as shown above as follows:

ANNUAL PERCENTAGE RATE: The cost of your credit as a yearly rate	FINANCE CHARGE The dollar amount the credit will cost you	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.	Total Sales Price The total cost of your purchase on credit, including your down payment of $
%	$	$	$	$

YOUR PAYMENT SCHEDULE WILL BE:

Number of payments	Amount each payment	When payments are due
	$	Beginning and on the same day of each thereafter.

The "Total Course Price" must be paid in full prior to attending Resident Training. You may prepay in full at any time.

NOTICE: ALL PRICES FOR COURSES ARE AS PRINTED HEREIN. THERE ARE NO CARRYING CHARGES, INTEREST CHARGES, OR SERVICE CHARGES CONNECTED OR CHARGED WITH ANY OF THESE PROGRAMS. CONTRACTS ARE NOT SOLD TO A THIRD PARTY AT ANY TIME.

I understand and agree that the additional agreements and provisions on the reverse side hereof are part of this Agreement and a part of this Contract binding upon me. I HAVE READ BOTH SIDES AND HAVE RECEIVED A COPY OF THE ENROLLMENT AGREEMENT. I HAVE RECEIVED AND READ THE A.C.T. - TRAVEL SCHOOL CATALOG.

NOTICE TO BUYER: (A) DO NOT SIGN THIS CONTRACT BEFORE YOU READ IT OR IF IT CONTAINS ANY BLANK SPACES. (B) YOU ARE ENTITLED TO AN EXACT COPY OF THE CONTRACT YOU SIGN. KEEP IT TO PROTECT YOUR LEGAL RIGHTS.

I hereby acknowledge and accept payment of $ ________

in Cash ______ - CK. ______ - M.C. ______ - VISA ______

____
Representative's Signature

____
Accepted by School Official

____
Date of Acceptance

GUARANTOR (IF NEEDED) ________________

SIGNED ________________

DATE ________________

PLEASE READ THE DITIONAL TERMS AND CONDITIONS O HE REVERSE SIDE.

American Career Training - Travel School

ADDITIONAL TERMS AND CONDITIONS

I. Grounds for Termination

A.C.T. reserves the right to terminate any student prior to completion of training for any of the following reasons: (i) failure to make any payment due and owing A.C.T. within thirty (30) days after it is due; (ii) failure to complete successfully the Independent Study Course and Resident Training within 12 months from the acceptance date of the enrollment agreement; (iii) failure to comply with the rules, regulations and policies regarding Resident Training as set forth in the catalog. A.C.T. shall notify the student, in writing, of its decision to terminate and grounds thereof. The date of such notice shall be deemed the official termination date.

II. Refund Policy

A.C.T. shall cancel a student's enrollment upon written request of the student by Registered Mail.

If the student is rejected for enrollment, any monies deposited with A.C.T. will be promptly refunded.

Up to and including five (5) business days after the Enrollment Agreement has been signed and accepted by the school, there is no liability and all monies paid, if any, will be fully refunded.

After acceptance by A.C.T. and the expiration of the five (5) business day cancellation period, the student shall be liable to A.C.T. as follows:

(a) After five (5) business days from the date the Enrollment Agreement has been accepted by the school and until A.C.T. receives completed lesson one of the Independent Study Course, $150.00

(b) After five (5) business days from the date the Enrollment Agreement has been accepted by the school and after beginning of training, $150.00, plus 10% of the Independent Study Course tuition until student completes 10% of the lessons.

(c) After completing 10% of the lessons, but prior to completing 25% of the lessons, $150.00 plus 25% of the Independent Study Course tuition.

(d) After completing 25% of the lessons, but prior to completing 50% of the lessons, $150.00 plus 50% of the Independent Study Course tuition.

(e) After completing more than 50% of the lessons, the student is responsible for the full Independent Study Course tuition.

Upon completion of the Independent Study Course, if the student does not enter Resident Training, or if the student withdraws from A.C.T. prior to Resident Training, or if a student is discontinued for good cause by A.C.T. prior to Resident Training, there is no liability for the Resident Training tuition.

After the student attends the first resident class session if the student requests cancellation, the student shall be liable to A.C.T. as follows:

(a) Up to and including completion of the first 10% of Resident Training, 10% of the Resident Training tuition;

(b) After completing more than 10% of Resident Training and up to and including completion of 25% of Resident Training, 25% of the Resident Training tuition;

(c) After completing more than 25% of Resident Training and up to and including completion of 50% of Resident Training, 50% of the Resident Training tuition;

(d) If the student completes more than half of Resident Training, the full Resident Training tuition.

If the amount which the student has paid to A.C.T. as of the time of cancellation is less than the amount due and owing as calculated above, the student shall be liable for the difference. If the amount owed is less than the amount paid, A.C.T. will refund the excess within thirty (30) days of the student's request for cancellation.

III. Failure to Complete Courses

If, within 12 months from the acceptance date of the enrollment agreement, the student has not given written notice of cancellation and has not satisfactorily completed Resident Training, then all obligations of A.C.T. to the student shall cease and all monies paid by the student shall be deemed earned.

This 12 month-period may be extended only by written request by the student given prior to the expiration of the 12 month period and for good cause shown.

IV. Employment Assistance

A.C.T. will assist each student who is in the process of successfully completing the courses by providing the following services:

(1) Advice, and instruction on personal charm, poise and appearance in connection with the interviewing process.

(2) 5 professionally prepared resumes.

(3) A.C.T. actively informs travel agencies and other related travel-oriented companies of the training being provided and the availability of students for immediate placement.

DISCLAIMER: A.C.T. does not guarantee any student a job.

V. Punctuality:

Classes are held every Monday through Friday (except for school holidays), from 9:00 A.M. to 6:00 P.M., with "breaks" determined by instructor, and a 1 hour recess for lunch. We expect each student to be in their seats ready for "action," at 9:00 A.M. Our instructors have a full scheduled curriculum and much material to cover. We just cannot accept nor tolerate, abusive tardiness or irresponsible interruptions.

VI. Absenteeism:

Because emergencies and illnesses can develop unexpectedly, we shall allow adequate and appropriate "make-up." An acceptable explanation to your instructor will be necessary and required. Unauthorized absenteeism may result in dismissal from Resident Training.

VII. Attendance:

The last date of attendance shall be determined by the successful completion (min. 70% ave.) of all subject matter covered at Resident Training.

VIII. Smoking in Class:

Because smoking is offensive to some people, we cannot allow it in class.

I understand and have read the Additional Terms and Conditions stated above.

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 15E.

DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
OFFICE OF STUDENT FINANCIAL ASSISTANCE

PROGRAM PARTICIPATION AGREEMENT

Name of Institution AMERICAN CAREER TRAINING TRAVEL SCHOOL

Address of Institution 4699 N. FEDERAL HIGHWAY, STE 205 POMPANO BEACH FL 33064

IRS Employer Identification Number / 59-222-1740 A'

The postsecondary educational institution listed above, referred to hereafter as the "Institution," and the United States Secretary of Education, referred to hereafter as the "Secretary," agree that the Institution may participate in those student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV, HEA Programs) indicated under Article I of this Agreement and further agree that such participation is subject to the terms and conditions set forth in Articles II, IX, X and such other relevant Articles of this Agreement.

The execution of this Agreement by the Institution and the Secretary is a prerequisite to the Institution's initial or continued participation in any Title IV, HEA Program.

ARTICLE I. SCOPE OF COVERAGE

This Agreement covers the Institution's eligibility to participate in each of the following checked Title IV, HEA Programs:

- ☐ **PELL GRANT (PG) PROGRAM***
  20 U.S.C. 1070a; 34 CFR Part 690.
- ☒ **GUARANTEED STUDENT LOAN (GSL) PROGRAM**
  20 U.S.C. 1071 et seq; 34 CFR Part 682.
  - ☒ PLUS PROGRAM
    20 U.S.C. 1078-2; 34 CFR Part 683.
  - ☒ SUPPLEMENTAL LOANS FOR STUDENTS (SL) PROGRAM
    20 U.S.C. 1071.2; 34 CFR Part 682 & 683.
- ☐ **PERKINS LOAN (PL) PROGRAM****
  20 U.S.C. 1087aa et seq; 34 CFR Part 674.
- ☐ **SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) PROGRAM**
  20 U.S.C. 1070b et seq; 34 CFR Part 676.
- ☐ **COLLEGE WORK-STUDY (CWS) PROGRAM**
  42 U.S.C. 2751 et seq; 34 CFR Part 675 Subpart A.
  - ☐ JOB LOCATION AND DEVELOPMENT (JLD) PROGRAM
    42 U.S.C. 2756a; 34 CFR Part 675 Subpart B.
  - ☐ WORK STUDY ~~FOR~~ COMMUNITY SERVICE-LEARNING
    20 U.S.C. 2756b; 34 CFR Part 675.

ARTICLE II. GENERAL PROVISIONS

1. The Institution understands and agrees that it is subject to the program statutes and implementing regulations for each Title IV, HEA Program in which it participates, as well as the general provisions set forth in Part G of Title IV of the Higher Education Act of 1965, as amended (HEA), and the Student Assistance General Provisions regulations set forth in 34 CFR Part 668. The Institution further agrees to comply with all the relevant program statutes and regulations governing the operation of each Title IV, HEA Program in which it participates.

2. The Institution agrees to use the funds advanced to it under any Title IV, HEA Program, plus any interest or other income earned on those funds, only in accordance with the statutes and regulations governing that program. The Institution further agrees that it is responsible for accounting, with appropriate documentation, for all the Title IV, HEA Program funds it receives and the interest or other income earned on those funds, and for returning to the Secretary any funds for which it cannot properly account.

3. The Institution agrees not to charge any student a fee for processing or handling any application, form or data required to determine the student's eligibility for assistance under any Title IV Program or the amount of such assistance, or for completing or handling the Federal Student Assistance Report provided for in Section 483(e) of the HEA.

4. If the Institution advertises job placement rates as a means of attracting students for enrollment, the Institution agrees that it will make available to prospective students, at or before the time of application, the most recent available data concerning employment statistics, graduation statistics and any other information necessary to substantiate the truthfulness of its advertisements.

5. The Institution certifies that, as of the later of July 1, 1987 or the date it executes this Agreement, it has, or will have, a drug abuse prevention program in operation that it determines is accessible to any officer, employee, or student at the Institution.

6. a. The Secretary agrees that the Institution may receive an administrative cost allowance pursuant to section 489 of the HEA for the PG, SEOG, CWS and PL Programs.

   b. The Institution agrees to use the administrative cost allowance to pay the costs of administering the Title IV, HEA Programs. The Secretary and the Institution agree that the costs of carrying out the Student Consumer Information Services activities are part of the costs of carrying out Title IV, HEA Programs.

7. The Institution agrees to comply with —

   a. Title IV of the Civil Rights Act of 1964, as amended, and the implementing regulations 34 CFR Parts 100 and 101 (barring discrimination on the basis of race, color or national origin);

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*The Pell Grant Program was previously called the Basic Educational Opportunity Grants Program

**The Perkins Loan Program was previously called the National Direct Student Loan Program, which in turn was a continuation of the National Defense Student Loan Program authorized by Title II of the National Defense Education Act of 1958, as amended (20 U.S.C. 421-429).

b. Title IX of the Education Amendments of 1972 and the implementing regulations 34 CFR Part 106 (barring discrimination on the basis of sex);

c. The Family Rights and Privacy Act of 1974 and the implementing regulations 34 CFR Part 99;

d. Section 504 of the Rehabilitation Act of 1973 and the implementing regulations 34 CFR Part 104 (barring discrimination on the basis of physical handicap); and

e. The Age Discrimination Act of 1975 and the implementing regulations 45 CFR Part 90.

ARTICLE III. PELL GRANT – SPECIFIC PROVISIONS

The Institution agrees to perform the functions and activities set forth in 34 CFR Part 690. The functions and activities the Institution agrees to perform include, but are not limited to:

1. Determining the eligibility of students to receive awards;
2. Computing the amount of Pell Grants according to the program regulations and the payment schedule provided by the Secretary;
3. Documenting and verifying the information on the Student Aid Report for students selected by the Secretary;
4. Paying funds to the student directly or to the student's account;
5. Recovering award overpayments;
6. Maintaining records and accounting for funds; and
7. Providing access to the Secretary, the Department of Education's Inspector General, or persons designated by either official to program and accounting records.

ARTICLE IV. GUARANTEED STUDENT LOAN/PLUS/SUPPLEMENTAL LOANS FOR STUDENTS PROGRAMS – SPECIFIC PROVISIONS

1. The Institution agrees not to provide any student with any statement, or certification to any lender, under any loan program covered by this Article that qualifies the student for a loan or loans in excess of the amount that student is eligible to borrow in accordance with sections 425(a), 428(a)(2) and 428(b)(1)(A) and (B) of the HEA.
2. The Institution agrees to provide students with the consumer information specified in 34 CFR 682.
3. The Secretary and the Institution agree that this Agreement does not authorize the Institution to make loans under the loan programs covered by this Article.
4. The Institution will inform all eligible borrowers enrolled in the Institution about the availability and eligibility of such borrowers for State Grant assistance from the State in which the institution is located, and will inform such borrowers from another State of the source for further information concerning assistance from that State.

ARTICLE V. PERKINS LOAN – SPECIFIC PROVISIONS

1. The Institution agrees to establish and maintain a Perkins Loan Fund (Fund) for the purpose of making loans to eligible students. Any student loan fund established under section 204 of Title II of the National Defense Education Act of 1958, as amended, is considered established under section 463 of Title IV, Part E, of the Higher Education Act of 1965, as amended. Any asset of that fund is considered to be an asset of the fund established under this Article.
2. The Institution agrees to deposit promptly in the Fund:
   a. Federal Capital Contributions appropriated under section 461 of the Act and received by the Institution;
   b. Institutional Capital Contribution, i.e., an amount from its own funds, equal to not less than one-ninth of the Federal Capital Contribution;
   c. Collections of principal and interest on loans made from the Fund;
   d. Late charges;
   e. Payments made to the Institution by the Secretary as a result of cancellations of loans made after June 30, 1972 (Direct or Perkins Loans);
   f. Any other earnings, including interest, of the Fund;
   g. Short-term, no-interest loans made by the Institution to the Fund in anticipation of collections; and
   h. Payments made to the Institution by the Secretary as a result of referrals of defaulted loans.
3. The Institution agrees to use the Funds only for –
   a. Loans to students in accordance with the program regulations;
   b. Administrative costs in accordance with paragraph 2.h. of ARTICLE II, of this Agreement;
   c. Costs of litigation and other collection costs as specified in the program regulations;
   d. Capital distributions as provided in section 466 of the HEA; and
   e. Repayments to the Institution of the short-term, no-interest loans made to the Fund by the Institution in anticipation of collections.

4. The Institution agrees to exercise due diligence in the collection of loans made from the Fund in accordance with program regulations. If a loan has been in default despite the Institution's exercise of due diligence, the Institution may assign, without recompense, its rights to the note to the United States Government.

5. The Institution agrees to submit a report to the Secretary on at least a semi-annual basis indicating the total number of loans made from its Fund which are in default for 120 days for loans repayable in monthly installments or for 180 days for loans repayable in less frequent installments.

6. The Secretary agrees to provide to the Institution any information with respect to the names and addresses of borrowers or other relevant information which is available to the Secretary.

7. The Institution agrees to provide student borrowers with the loan information specified in section 463A of the HEA and in the Perkins Loan Program regulations.

ARTICLE VI. SUPPLEMENTAL GRANTS – SPECIFIC PROVISIONS

1. The Institution agrees that the Federal share of the Supplemental Educational Opportunity Grants it awards to its students will not exceed 95 percent in award year 1988-89, 90 percent in award year 1989-90, and 85 percent in award year 1990-91.

2. The Institution agrees to make Supplemental Education Opportunity Grants reasonably available (to the extent of available funds) to all eligible students.

ARTICLE VII. COLLEGE WORK-STUDY – SPECIFIC PROVISIONS

1. a. The Institution agrees to conduct a program of part-time employment for its eligible students. The Institution further agrees that students employed under the College Work-Study Program may work for the Institution itself, a Federal, State, or local agency, a private non-profit organization and, starting on July 1, 1987, a private for-profit organization.

   b. The Institution agrees that the College Work-Study employment it provides:

      (1) Will not displace employees;
      (2) Will not impair existing service contracts;
      (3) Will be governed by employment conditions that are appropriate and reasonable in terms of:
         (a) Type of work,
         (b) Geographical region, and
         (c) Employee proficiency.
      (4) Will not involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction.

   c. The Institution agrees that students employed under the College Work-Study Program who work for a Federal, State or local agency, or a private non-profit organization, may only perform work that is in the public interest.

   d. A proprietary institution of higher education agrees that if it employs a student under the College Work-Study Program to work for itself, that employment must:

      (1) Be on-campus;
      (2) Furnish student services other than the solicitation of other students to enroll in the institution; and
      (3) Complement and reinforce, to the extent praticable, the educational program or vocational goals of the student.

2. The Institution agrees that it will not pay any wage to CWS students that is less than the current Federal minimum wage required by section 6(a) of the Fair Labor Standards Act of 1938.

3. a. The Institution agrees that, except as provided in paragraphs 3.b, 3.c, and 7 of this Article, the Federal share of the compensation paid to students under the College Work-Study Program, which is derived from the Institution's allocation or reallocation of College Work-Study funds, will not exceed –

      (1) 80 percent in award years 1986-87, 1987-88 and 1988-89;
      (2) 75 percent in award year 1989-90; or
      (3) 70 percent in award year 1990-91 and succeeding award years.

   b. Subject to the limitation in Article IX, the Institution agrees that for any award year, if a student is employed under the College Work-Study Program in a work study for community service-learning program as defined in section 447 of the HEA, the Federal share of the compensation paid to that student, which is derived from the Institution's allocation or reallocation of College Work-Study funds, will not exceed 90 percent.

   c. The Secretary agrees that he may approve a Federal share in excess of the share set forth in paragraphs 3.a. and 3.b. for an Institution that qualifies as an eligible Institution under the Strengthening Institutions Program and Strengthening Historically Black Colleges and Universities Program authorized by Title III of the HEA.

4. The Secretary agrees not to require an Institution to terminate a student's CWS employment when the student's financial need is met. However, when the income from employment equals $200 above need, the Institution agrees that it may not continue to use CWS funds to pay the student.

5. The Institution agrees that employment under the College Work-Study Program will be made reasonably available (to the extent of the available funds) to all eligible students and that equivalent employment offered or arranged by the Institution will be made reasonably available (to the extent of available funds) to all students who desire employment.

6. The Institution agrees to award CWS employment, to the maximum extent practicable, which will complement and reinforce such recipient's educational program or career goals.

7. If an Institution – other than a proprietary institution providing on-campus employment for its students – provides College Work-Study Program employment with a private for-profit organization, the Institution agrees to abide by the following additional requirements:

   a. The Institution may only use up to 25 percent of its College Work-Study allocation or reallocation to pay the Federal share of the compensation for such employment.

   b. The Federal share of compensation paid to students, which is derived from the Institution's allocation or reallocation of College Work-Study funds, may not exceed –

      (1) 60 percent in award year 1987-88 and 1988-89;

      (2) 55 percent in award year 1989-90; and

      (3) 50 percent in award year 1990-91 and succeeding award years; and

   c. The employment provided must be academically relevant to the student's educational or training program and may not be used to pay an employee who would have been otherwise employed by the organization.

8. If an institution receives an allocation of funds under the College Work-Study Program for an award year, the Secretary agrees that the Institution may use 10 percent of that allocation to pay the compensation of students under the College Work-Study Program in the subsequent award year and another 10 percent of that allocation to pay the compensation of students under the College Work-Study Program in the previous award year.

ARTICLE VIII. COLLEGE WORK-STUDY/JOB LOCATION AND DEVELOPMENT PROGRAM – SPECIFIC PROVISIONS

In establishing a Job Location and Development Program, or in expanding its own existing program, the Institution agrees to comply with the conditions set forth in 34 CFR 675 Subpart B which include, but are not limited to, the following:

1. Certifying that the Federal funds used for this program can realistically be expected to help generate student wages exceeding in the aggregate the amounts of these Federal funds.

2. Locating and developing jobs for students during and between periods of enrollment but not locating or developing jobs for students to obtain upon graduation.

3. Submitting an annual report to the Secretary providing:

   a. The uses made of funds provided for the Job Location and Development Program, and

   b. An evaluation of the effectiveness of the program in benefiting students at the Institution.

4. In the case of a Job Location and Development Program, limiting the Federal Share of the cost of that program, to the lesser of 10 percent or $30,000 of its allocation. In addition, the Institution agrees that the Federal share may not exceed 80 percent of the program's cost.

5. Not locating or developing jobs at an eligible Institution, or displacing currently employed workers, or impair existing contracts for services.

6. Including appropriate performance standards if funds are used to contract with another organization.

7. In establishing a Community Service Job Location and Development Program, or in expanding its own existing program, the Institution agrees to comply with the conditions set forth in section 446 of HEA which includes, but are not limited to the following:

   a. Limiting the Federal Share of the costs of community service Job Location and Development Program, to the lesser of 10 percent or $20,000 of its allocation.

   b. Locating and developing community service jobs which are designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs.

ARTICLE IX. WORK-STUDY FOR COMMUNITY SERVICE-LEARNING

An Institution may use up to 10 percent of its College Work-Study allocation to pay the compensation of students working in its community service-learning program at the rate described in paragraph 3.c. of ARTICLE VII. if its community service-learning program satisfies the definition of that program set forth in Section 447 of the HEA.

ARTICLE X. DURATION

1. This Agreement is effective on the date executed by the Secretary. This Agreement supersedes any prior Agreements between the Secretary and the Institution concerning the administration of any Title IV, HEA Program.

2. This Program Participation Agreement automatically terminates:

   a. On the date the Institution no longer qualifies as an eligible Institution;

   b. On the date the Institution undergoes a change in ownership that results in a change in control; or

   c. At the end of the award year in which a certification review of the Institution is completed. For this purpose, a certification review means a formal evaluation by the Secretary of the Institution's financial responsibility and administrative capability to participate in any Title IV, HEA Program.

3. The Secretary may terminate this Agreement under the Student Assistance General Provisions regulations, 34 CFR Part 668, Subpart G, "Fine, Limitation, Suspension and Termination Proceedings."

4. The Institution may terminate this Agreement under an applicable program regulation.

5. If the Secretary or the Institution wishes to terminate this Agreement, the Secretary will establish the termination date.

ARTICLE XI. SIGNATORIES

As Chief Executive Officer of the Institution and the subsidiary institutions listed below, I agree that the Institution and all the subsidiary institutions (if any) will comply with all the statutes and regulations applicable under this Agreement.

Signature of Chief Executive Officer ______________________ Date 3/13/87

Print name and title JOSEPH A. [illegible]ALARESO, PRESIDENT/REGISTRAR

This Agreement includes the subsidiary institutions listed below. (This list should include only those subsidiary institutions that have been designated on their own right as eligible institutions of higher education.)

Name(s) and Address(es) of Subsidiary Institution(s)	IRS-Employer Identification Number

For the Secretary ______________________ Date JUL 1 1987

DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
OFFICE OF STUDENT FINANCIAL ASSISTANCE

PROGRAM PARTICIPATION AGREEMENT*

Name of Institution American Career Training-Travel School

Address of Institution 4699 N. Federal Hwy., Pompano Bch., FL 33064

IRS Employer Identification Number 59-222-1740

(referred to below as the "Institution") and the Secretary of the U.S. Department of Education (referred to below as the "Secretary") agree to the terms of ARTICLES I, II, XI, and XII and such other ARTICLES of this Agreement that are applicable to each program identified in ARTICLE I.

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* Execution of this Agreement is a prerequisite to initial or continued participation in the Pell Grant, Supplemental Educational Opportunity Grant (SEOG), College Work-Study (CWS), National Direct Student Loan (NDSL), Guaranteed Student Loan (GSL), Parent Loans for Undergraduate Students (PLUS), and the Job Location and Development (JLD) programs. (Section 487(a) of the Higher Education Act of 1965, 20 USC 1094)

ARTICLE I. SCOPE OF COVERAGE

1. This Agreement covers the Institution's eligibility to participate in each of the following checked title IV student financial assistance programs:

☐ PELL GRANT PROGRAM*(Check only one of the two boxes below)

  ☐ Regular Disbursement System 20 U.S.C. 1070a; 34 CFR Part 690.

  ☐ Alternate Disbursement System 20 U.S.C. 1070a; 34 CFR Part 690.

☐ NATIONAL DIRECT STUDENT LOAN (NDSL) PROGRAM**
20 U.S.C. 1087aa et seq; 34 CFR Part 674.

☐ SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (SEOG) PROGRAM
20 U.S.C. 1070b; 34 CFR Part 676.

☐ COLLEGE WORK-STUDY (CWS) PROGRAM
42 U.S.C. 2751 et seq; 34 CFR Part 675 Subpart A.

☐ JOB LOCATION AND DEVELOPMENT (JLD) PROGRAM
42 U.S.C. 2756a; 34 CFR Part 675 Subpart B.

☒ GUARANTEED STUDENT LOAN (GSL) PROGRAM
20 U.S.C. 1071 et seq; 34 CFR Part 682.

☐ PARENT LOANS FOR UNDERGRADUATE STUDENTS (PLUS) PROGRAM
20 U.S.C. 1078-2; 34 CFR Part 683.

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*The Pell Grant Program is a continuation of the Basic Educational Opportunity Grants Program authorized by title IV of the Higher Education Act of 1965, as amended, (20 U.S.C. 1070a).

**The National Direct Student Loan Program is a continuation of the National Defense Student Loan Program authorized by title II of the National Defense Education Act of 1958, as amended, (20 U.S.C. 421-429).

ARTICLE II. GENERAL PROVISIONS

1. a. The Institution understands and agrees that it is subject to the program statute and implementing regulations for each program in which it participates, as well as the Student Assistance General Provisions, title IV, Part F of the Higher Education Act, and the Student Assistance General Provisions regulations, 34 CFR Part 668.

   b. The Institution agrees to use the funds advanced to it under each program solely for the purposes specified in, and in accordance with the provisions set forth in, the program statute, the Student Assistance General Provisions and the regulations which implement those statutes. The Institution further agrees to properly account for the funds it receives. As such, the Institution agrees to determine that a student is eligible to receive funds under a program and to obtain a signed statement of educational purpose before paying the student any money under that program.

2. a. The Secretary agrees that the Institution may receive an administrative cost allowance pursuant to section 428(e) of the Higher Education Act (HEA) for the GSL program and section 489 of the HEA for the Pell Grant, SEOG, CWS and NDSL programs.

   b. The Institution agrees to use the administrative cost allowance to pay the costs of administering the title IV, HEA student financial assistance programs. The Secretary and the Institution agree that the costs of carrying out the Student Consumer Information Services activities are part of the costs of carrying out title IV HEA student financial assistance programs.

3. The Institution agrees to comply with --
   a. Title IV of the Civil Rights Act of 1964, as amended, and the implementing regulations 34 CFR Parts 100 and 101 (barring discrimination on the basis of race, color or national origin);
   b. Title IX of the Education Amendments of 1972 and the implementing regulations 34 CFR Part 106 (barring discrimination on the basis of sex);
   c. The Family Rights and Privacy Act of 1974 and the implementing regulations 34 CFR Part 99;
   d. Section 504 of the Rehabilitation Act of 1973 and the implementing regulations 34 CFR Part 104 (barring discrimination on the basis of physical handicap); and
   e. The Age Discrimination Act of 1975 and the implementing regulations 45 CFR Part 90.

ARTICLE III. PELL GRANTS - REGULAR DISBURSEMENT SYSTEM

The Institution agrees to perform the functions and activities set forth in 34 CFR Part 690 except for those functions and activities set forth in Subpart H. The functions and activities the Institution agrees to perform include, but are not limited to:

1. determining the eligibility of students to receive awards according to Subpart A of the program regulations,

2. computing the amount of Pell Grants according to Subpart F of the program regulations and the payment schedule provided by the Secretary,

3. documenting and verifying the information on the Student Eligibility Report for students selected by the Secretary,

4. paying funds to the student directly or to the student's account,

5. recovering award overpayments,

6. maintaining records and accounting for funds, and

7. providing access to the Secretary, the Department of Education's Inspector General, or persons designated by either official to program and accounting records.

ARTICLE IV. PELL GRANTS - ALTERNATE DISBURSEMENT SYSTEM

The Institution agrees to perform the functions and activities set forth in 34 CFR Part 690, Subpart H. These functions and activities include, but are not limited to:

1. providing each student, upon request, with an application or other appropriate form needed to calculate the student's award,

2. providing information necessary for the computation and disbursement of awards,

3. certifying the accuracy of the information it and the student supply to the Secretary,

4. maintaining records as required by 34 CFR 668.12 of the Student Assistance General Provisions, and

5. providing access to the Secretary, the Department of Education's Inspector General, or persons designated by either official to program and accounting records.

ARTICLE V. NATIONAL DIRECT STUDENT LOAN - SPECIFIC PROVISIONS

.. The Institution agrees to establish and maintain a National Direct Student Loan Fund (Fund) for the purpose of making loans to eligible students. (Any student loan Fund established under an agreement under section 204 of title II of the National Defense Education Act of 1958, as amended, is considered established under section 463 of title IV, Part E, of the Higher Education Act of 1965, as amended. Any asset of that Fund is considered to be an asset of the Fund established under this Agreement.)

2. The Institution agrees to deposit promptly in the Fund:

    a. Federal Capital Contributions appropriated under section 461 of the Act and received by the Institution,
    b. an amount from its own funds, equal to not less than one-ninth of the Federal Capital Contribution (Institutional Capital Contribution),
    c. collections of principal and interest on loans made from the Fund,
    d. penalty charges,
    e. payments made to the Institution by the Secretary as a result of cancellations on loans made after June 30, 1972 (Direct Loans),
    f. any other earnings including interest, of the Fund,
    g. short-term no-interest loans made by the Institution to the Fund in anticipation of collections, and
    h. payments made to the Institution by the Secretary as a result of referrals of defaulted loans.

3. The Institution agrees to use the Fund only for:

    a. loans to students in accordance with the program regulations,
    b. administrative costs in accordance with ARTICLE II, paragraph 2 of this Agreement,
    c. costs of litigation and other collection costs as specified in the program regulations,
    d. capital distributions as provided in section 466 of the Act, and
    e. repayments to the Institution of the short-term, no-interest loans made to the Fund by the Institution in anticipation of collections.

4. The Institution agrees to exercise due diligence in the collection of loans made from the Fund according to the requirements of the program regulations. If a loan has been in default for at least two years despite the Institution's exercise of due diligence, the Institution may assign, without recompense, its rights to the note to the United States Government.

5. The Institution agrees to submit a report to the Secretary on at least a semi-annual basis indicating the total number of loans made from its Fund which are in default for 120 days for loans repayable in monthly installments or for 180 days for loans repayable in less frequent installments.

6. The Secretary agrees to provide to the Institution any information with respect to the names and addresses of borrowers or other relevant information which is available to the Secretary.

7. The Institution agrees to make loans from the Fund reasonably available (to the extent of available funds) to all eligible students.

8. The Institution agrees to provide student borrowers with the loan information specified in section 463A of the Higher Education Act, 20 U.S.C. 1087cc-1. (This information is also specified in 34 CFR 674.16 of the NDSL program regulations.)

ARTICLE VI. SUPPLEMENTAL GRANTS - SPECIFIC PROVISIONS

The Institution agrees to make Supplemental Education Opportunity Grants reasonably available (to the extent of available funds) to all eligible students.

ARTICLE VII. COLLEGE WORK-STUDY - SPECIFIC PROVISIONS

1. a. The Institution agrees to conduct a program of part-time employment for eligible students in work for the Institution itself (except in the case of a proprietary institution of higher education), or work in the public interest for a Federal, State, or local public agency or a private non-profit organization under an arrangement between the Institution and the agency or ogranization.

    b. The Institution agrees that College Work-Study employment it provides:

        (1) Will not displace employees;
        (2) Will not impair existing service contracts;
        (3) Will be governed by employment conditions that are appropriate and reasonable in terms of:
            (a) Type of work,
            (b) Geographical region, and
            (c) Employee proficiency;
        (4) Will not involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction.

2. The Institution agrees that it will not pay any wage to CWS students that is less than the current Federal minimum wage required by section 6(a) of the Fair Labor Standards Act of 1938.

3. a. The Institution agrees that the Federal share of the compensation of students employed under this Agreement will not exceed 80 percent of such compensation. ("Federal share" means the CWS funds allocated to the Institution.)

3. b. The Secretary agrees to approve a Federal share of more than 80 percent of the compensation if the Institution has been officially designated a "developing institution of higher education," or the Institution can demonstrate that at least 50 percent of its students who are enrolled as at least half-time students have parents whose annual adjusted gross income is less than $7,500.

4. The Secretary agrees not to require an institution to terminate a student's CWS employment when the student's financial need is met. However, when the income from employment equals $200 above need, the institution may not continue to use CWS to pay the student.

5. The Institution agrees that employment under the College Work-Study Program will be made reasonably available (to the extent of the available funds) to all eligible students and that equivalent employment offered or arranged by the Institution will be made reasonably available (to the extent of available funds) to all students who desire employment.

6. The Institution agrees to award CWS employment, to the maximum extent practicable, which will complement and reinforce each recipient's educational program or career goals.

ARTICLE VIII. MAINTENANCE OF EFFORT - CWS AND SEOG PROGRAMS ONLY

1. For each award year in which it receives an allocation under the Supplemental Educational Opportunity Grants Program or the College Work-Study Program, the Institution agrees to spend from its own scholarship and student aid programs, an amount which is not less than the average of its three year base level expenditures as calculated in accordance with the maintenance of effort section of the CWS and SEOG regulations (34 CFR 675.20 and 676.20 respectively).

2. This Agreement is a new agreement for purposes of the maintenance of effort requirements set forth in the CWS and SEOG Program regulations.

ARTICLE IX. COLLEGE WORK-STUDY - JOB LOCATION AND DEVELOPMENT PROGRAM - SPECIFIC PROVISIONS

In establishing a Job Location and Development Program, or in expanding its own existing program, the Institution agrees to comply with the conditions set forth in 34 CFR 675 Subpart B which include, but are not limited to, the following:

1. Certifying that the Federal funds used for this program can realistically be expected to help generate student wages exceeding in the aggregate the amounts of these Federal funds.
2. Continuing to spend in its own job location and development programs, from sources other than funds received under Subpart B of the program regulations, not less than the average of its three year base level expenditures as calculated in accordance with the maintenance of effort section 675.39 of the College Work-Study Program regulations.
3. Locating and developing jobs for students during and between periods of enrollment but not locating or developing jobs for students to obtain upon graduation.
4. Submitting an annual report to the Secretary providing:
   a. the uses made of funds provided for the Job Location and Development Program, and
   b. an evaluation of the effectiveness of the program in benefiting students of the Institution.
5. Limiting the Federal share of the cost of any job location and development program, to not more than 80 percent of the program's cost.
6. Not locating or developing jobs at an eligible Institution, or displacing currently employed workers, or impair existing contracts for services.
7. Including appropriate performance standards if funds are used to contract with another organization.

ARTICLE X. GUARANTEED STUDENT LOAN/PARENT LOANS FOR UNDERGRADUATE STUDENTS - SPECIFIC PROVISIONS

1. The Institution agrees to comply with all program statutes and the implementing regulations 34 CFR 682 and 34 CFR 683.
2. The Institution agrees to provide students with the consumer information specified in 34 CFR 682.602 and 34 CFR 683.83.
3. The Secretary and the Institution agree that this Agreement does not authorize the Institution to make loans under either loan program.

ARTICLE XI. AGREEMENT DURATION

. This Agreement is effective on the date executed by the Secretary. This Agreement supersedes any prior Agreements between the Secretary and the Institution concerning the administration of any title IV student financial assistance program covered by this Agreement.

2. This Agreement automatically terminates:
   a. On the date the Institution undergoes a change of ownership which results in a change of control (34 CFR 668.18), or
   b. On June 30th of the award year in which the Institution undergoes a certification review. A certification review means a formal appraisal by the Secretary of the Institution's financial responsibility and administrative capability (34 CFR Part 668 Subpart B) to administer and participate in the programs covered by this Agreement.

3. a. The Secretary may terminate this Agreement under the Student Assistance General Provisions regulations, 34 CFR Part 668, Subpart G, "Fine, Limitation, Suspension and Termination Proceedings."
   b. The Institution may terminate this Agreement under an applicable program regulation.
   c. If the Secretary or the Institution wishes to terminate this Agreement under this paragraph, the Secretary will establish the termination date.

ARTICLE XII. SIGNATORIES

As Chief Executive Officer of this Institution, I agree that this Institution, its branch campus(es) (if any) and its representatives will comply with all laws and program regulations applicable under this Agreement.

Signature of Chief Executive Officer ____________ Date April 3, 1985

Typed name and title Joseph A. Calareso - President

This Agreement includes the following Branch Campus(es):

Name(s) and Address(es) of Branch Campus(es)	IRS-EI Number
N/A	

For the Secretary ____________ Date MAY 7 1985

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

May 07, 1985

ASSISTANT SECRETARY
FOR POSTSECONDARY EDUCATION
OFFICE OF STUDENT FINANCIAL ASSISTANCE

Mr. Joseph Calareso
President
American Career Training
Travel School
4699 North Federal Highway
Pompano Beach, Florida 33064

Dear Mr. Calareso:

This office has approved your institution's request for certification to participate in selected programs of student financial assistance under the Higher Education Act of 1965, as amended.

We are notifying the appropriate operations areas of the certification of your institution. These areas will forward to your institution a funding authorization and/or identification number and other necessary informational manuals.

For further information regarding the various programs, please call as follows: Pell Grant Program (202) 447-9025 and Guaranteed Student Loan Program (202) 447-9316.

Sincerely yours,

Eleanor Seiber

Coordination Section
Institution and Lender
Certification Branch/DCPR

The documents of the attached file have been reviewed by the Coordination Section, ILCB for relevance and completeness, and have been found to be in acceptable form.

____________ Approved Eleanor Scriber 4-24-85
Coordination Section Date

The Financial Analysis Section, ILCB has completed a review of the financial statements and supporting documents in the attached file. The file subject has/has not demonstrated an adequate degree of financial responsibility.

✓ Approved without Conditions
____________ Approved with Conditions
____________ Disapproved

Chief, Financial Analysis Section Date

The Administration Analysis Section, ILCB has completed a review of the Application for Certification and supporting documents in the attached file. The file subject has/has not demonstrated an adequate degree of Administrative capability.

✓ Approved without Conditions
____________ Approved with Conditions
____________ Disapproved

Janet L. Buntebart 5/03/85
Chief, Administrative Analysis Section Date

The Coordination, Financial Analysis and Administrative Analysis Sections having completed their review of the file subject the recommendations are referred to the Chief, Institution and Lender Certification Branch.

____________ Approved without Conditions
____________ Approved with Conditions

Conditions: ____

____________ Disapproved

5/3/85 Chief, ILCB

MEMORANDUM

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

: Chief, Transaction and Billing Section
Division of Program Operations, BSFA

DATE: 5-7-85

MEMO # EL-85-176

OM Coordination Section
Institution and Lender Certification
Branch, DCPA

BJECT. Change to Records, GSL Program

Institution: American Career Training Travel School

Address: 4699 North Federal Highway,
Pompano Beach, Florida 33064

EIN # ____________ Vendor # 039959

Please affect the following record change(s) regarding the above school:

___✓___ Assign Vendor # - newly eligible institution (Domestic/Foreign)
________ Reactivate Vendor # - approved ownership change
________ Terminate Vendor # - ownership change
________ Terminate Vendor # - institution closed
________ Terminate Vendor # - eligibility withdrawn
________ Terminate Vendor # - result of LST action

________ Record name/address change:

Previous Name: ____________

Previous Address: ____________

________ Other ____________

Eleanor Scriber
Technician - Coordination Section

Requested changes to the record completed:

Signature ____________ Date 5-7-85

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85.115  APR 25  19.15.32                                    U.S. DEPARTMENT OF EDUCAT
                                                             CENTRAL REGISTRY SYSTEM
                                            ENTITY SEGMENT - ENTITY DATA UPDATE

    ENTITY NUMBER = 1592221740A1
                                                                            P R I O R
                            C U R R E N T   F I L E

    NAME                  1 AMERICAN CAREER TRAINING TRAVEL                 1
    SUBNAME               2 SCHOOL                                          2
    STREET ADDR           3 4699 N FEDERAL HWY                              3
    CITY                  4 POMPANO BEACH                                   4
    STATE                 5 FL                                              5
    ZIP                   6 33064                                           6
    CONG DIST             7 15                                              7
    FAADS RECIPIENT CODE  8 22                                              8
    GEO STATE             9 12                                              9
    GEO COUNTY           10 011                                            10
    GEO CITY             11 2570                                           11
    GEO PLACE            12 58050                                          12
    SMSA CODE            13 2680                                           13
    XREF ENTITY NUM      14                                                14
    STATUS               15 A                                              15
    ENTRY DATE           16 85115                                          16
    ENTRY OFFICE         17 X1DHCH                                         17
    MOD DATE             18 85115                                          18
    MOD OFFICE           19 X1DHCH                                         19
    PURGE DATE           20                                                20

NEW RECORD
```

Memo #85-176

COORDINATION SECTION, ILCB
SCHOOL PROCESSING CHECK LIST

C.S. Technician: Eleanor Scriber

SCHOOL NAME: American Career Training Travel School

SCHOOL ADDRESS: 4699 North Federal Highway
Pompano Beach, Florida 33064

ENTITY NUMBER: 592221740

REASON FOR APPLICATION

- ✓ New School
- ____ Ownership change
- ____ Resubmission

TYPE OF OWNERSHIP

- ✓ Proprietary
- ____ Private Non-Profit
- ____ Public

PARTICIPATION AGREEMENTS received on 4-10-85

APPLICATION FOR CERTIFICATION received on 4-10-85

FINANCIAL REPORT received on 4-10-85

PROGRAM(S) SCHOOL IS CURRENTLY CERTIFIED FOR: ☐ PGP — ☐ EDS or ☐ ADS ☐ GSLP
(Resubmission application only)
☐ PLUS ☐ NDSL ☐ SEOG ☐ CWS ☐ SLSP

DATE OF CURRENT ELIGIBILITY LETTER: 3-22-85

PROGRAM/S SCHOOL IS APPLYING FOR: ☐ PGP — ☐ EDS or ☐ ADS ☑ GSLP ☐ PLUS
☐ NDSL ☐ SEOG ☐ CWS ☐ SLSP

COPY OF PPA SENT TO CRS ON 4-24-85 and Received on ____________ rec'd 4/16/85

American Career Training

TRAVEL SCHOOL

Dade 947-9900 · *Broward* 946-5551 · *Palm Beach* 736-1402

4699 North Federal Highway, Suite 106, Pompano Beach, Florida 33064

April 3, 1985

H. J. Raffensperger, Chief
Institution and Lender
Certification Branch, DCPR
L'Enfant Plaza Station
P.O. Box 23800
Washington, D.C. 20024

Dear Mr. Raffensperger,

Enclosed please find the following:

1) Two completed and signed copies of the Program Participation Agreement and,
2) One completed and signed copy of the "Application for Certification for Participation in Programs of Student Financial Assistance" (ED Form 633) and,
3) One copy of our schools financial statements as of December 31, 1984.

Please advise if you or your staff need any additional information.

Sincerely,

Joseph A. Calareso
President

A.A.S. Analysis and Recommendation Sheet

Name of School AMERICAN CAREER TRAINING TRAVEL SCHOOL

Address of School POMPANO BEACH, FL 33064

The Administrative Analysis Section has evaluated the administrative capability of this institution and finds that the institution meets the requirements of Sections 668.16 and 668.17 of the Student Assistance General Provisions (34 CFR 668-12/31/80).

Analyst Ronald Amos

Date 5,3-85

This institution meets the requirements of 34 CFR 668 with the following execption:

Analyst

Date

This institution does not meet the requirements of 34 CFR 668 and should be disapproved for participation for the following reasons:

Analyst

Date

✓ Approve ___ Disapprove

James L. Buntebart 5/03/85
Section Chief Date

Comments:

American Career Training

TRAVEL SCHOOL

Dade 947-9900 · *Broward* 946-5551 · *Palm Beach* 736-1402

4699 North Federal Highway, Suite 106, Pompano Beach, Florida 33064

April 19, 1985

Mr. Ronald Amon
U.S. Department of Education
The Institution and
Lender Certification Division
7th & D St. S.W.
Room 4662, ROB-NCR
Washington, D.C. 20202

re: Ammended ED Form 633

Dear Mr. Amon,

On April 3, 1985, I sent to Mr. H.J. Raffensperger the following items:

1) Two completed and signed copies of the Program Participation Agreement and,
2) One completed and signed copy of the "Application for Certification for Participation in Programs of Student Financial Assistance" (ED Form 633) and,
3) One copy of our school's financial statement as of December 31, 1984.

I have just been advised that questions 7A, 7B, and 7C, on ED Form 633 refer to "estimates" of workload for the award period. I have subsequently amended my answers to these questions to reflect my best estimates.

Enclosed please find a copy of this newly "amended" ED Form 633, which should be included with my entire application package.

Please advise if you or your staff need any additional information.

Sincerely,

Joseph A. Calareso
President

JAC/ecr
encl.

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

10-20-87

MR. JOSEPH CALARESO
PRESIDENT
AMERICAN CAREER TRAINING TRAVEL
SCHOOL
4699 N FEDERAL HWY
POMPANO BEACH, FL, 33064

INSTITUTIONAL ELIGIBILITY NOTICE

CORRESPONDENCE SCHOOL: ELIGIBILITY INCLUDES A NEW PROGRAM
ACCREDITED JUNE 11, 1987.

Dear MR. CALARESO:

We are pleased to inform you that based upon the information included in your application (ED Form 1059), the Secretary of Education has determined that

AMERICAN CAREER TRAINING TRAVEL
SCHOOL

located at: 4699 N FEDERAL HWY, POMPANO BEACH, FL, 33064

satisfies the definition of an eligible

Vocational School (Section 435(c),HEA)

as set forth in the above noted sections of the Higher Education Act of 1965, as amended (HEA). For the purpose of this determination, the following educational programs constitute that part of the institution that satisfies the above definition(s)

BASIC TRAINING FOR THE TRAVEL INDUSTRY
HART SCH FOR PROF SEC-PROF SEC TRAINING

Thus, for this designation, the institution is the sum of the above-listed educational programs

As a result of the designation as an eligible institution, the institution is eligible to apply to participate in the following postsecondary education Federal assistance programs administered by the U.S. Department of Education -

- Higher Education Act of 1965, as amended:
  Title IV: Part B - Guaranteed Student Loan Program

This eligibility designation remains in effect so long as the Institution continues to satisfy all relevant statutory and regulatory eligiblity requirements and the enclosed Requirements for Maintaining Institutional Eligibility, which are incorporated into this Notice by this reference.

If you have any questions concerning the information included in this Notice or the enclosed Requirements for Maintaining Institutional Eligibility, please contact Occupational/Vocational Eligibility Branch of the Division of Eligibility and Certification at (202) 732-4913.

Sincerely,

Lois M. Moore, Chief
Occupational/Vocational
Eligibility Branch
Division of Eligibility
and Certification

Eligibility Data:
  Main Campus OPE ID: 02295900
  Entity Number: 1592221740A1
  Eligibility effective: 09/28/87
  Academic Calendar: Clock Hours
  Control: 3
  Institution Type: 1
  Accreditation: NHSC

Enclosure
  Incorporated Requirements

CLB

AMERICAN CAREER TRAINING TRAVEL
SCHOOL
4699 N FEDERAL HWY
POMPANO BEACH, FL, 33064
OPE ID: 02295900

REQUIREMENTS FOR MAINTAINING INSTITUTIONAL ELIGIBILITY

These Requirements apply to any institution or school that participates in any postsecondary education Federal assistance program administered by the U.S. Department of Education.

1. PROGRAM PARTICIPATION REQUIREMENTS. Designation as an eligible institution of higher education (1201(a) or 435(b) of the Higher Education Act of 1965, as amended (HEA)); a proprietary institution (481(b), HEA; a postsecondary vocational institutions (481(c), HEA); or a vocational school (435(c), HEA), DOES NOT MEAN that the institution or school is automatically eligible to participate in any of the listed Federal student financial assistance programs. NOR DOES IT MEAN that the institution or school is automatically eligible to receive funds under any of the listed programs. Specifically, in order to participate in the -

   - STUDENT FINANCIAL ASSISTANCE PROGRAMS authorized by Title IV of the HEA -- Pell Grants, Guaranteed Student Loans, Supplemental Educational Opportunity Grants, College Work-Study, Perkins Loan Program (formerly NDSL), Parent Loans for Undergraduate Students (PLUS), and Job Location and Development Program -- the institution or school must be certified by the Department of Education as having the requisite administrative capability and financial responsibility and the institution or school must execute a Program Participation Agreement in accordance with Student Assistance General Provisions, 34 CFR Part 668.11.

   - INSTITUTIONAL AID PROGRAMS authorized by Title III of the HEA -- Strengthening Program, Strengthening Historically Black Colleges & Universities. and Endowment Program -- and institution of higher education must be determined to be an eligible institution under two categories of eligibility criteria. Before applying for eligibility under Title III program criteria, an institution must satisfy the basic institutional eligibility requirements of section 312 of HEA and 34 CFR Part 624.

2. SCOPE OF ELIGIBILITY. The institution or school is eligible to apply for participation in only those programs that are listed in its Notice of Institutional Eligibility. The eligibility of an institution or school to participate in a Federal assistance program DOES NOT APPLY TO ANY EDUCATIONAL PROGRAM OFFERED BY THE INSTITUTION WHICH DOES NOT MEET ALL STATUTORY AND REGULATORY REQUIREMENTS FOR ELIGIBILITY.

REQUIREMENTS FOR MAINTAINING INSTITUTIONAL ELIGIBILITY

3. PERIOD OF ELIGIBILITY. The institution's or school's status as an eligible institution remains in effect so long as it continues to satisfy all the relevant statutory and regulatory requirements for institutional eligibility. Thus the institution loses its status as an eligible institution or program ON THE DATE THAT IT FAILS TO SATISFY ANY OF THE REQUIRED ELEMENTS on which ts status as an eligible institution was based, such as its accreditation or its legal authority to provide a program of postsecondary education in the State in which it is located.

4. NOTIFY ED OF INSTITUTIONAL CHANGES. The institution or school must report to the Division of Eligibility and Certification any change in the institution's name; address; ownership; type and/or level of course offering; loss of accreditation; loss of legal authority to offer programs of postsecondary education in the State in which it is located; locations at other than the main campus at which it offers educational services; and contracts with other institutions under which that other institution provides a portion of its educational programs. Failure to provide this information may lead to loss of eligibility.

5. INSTITUTION'S IDENTIFICATION NUMBER. The institution or school has been assigned an Office of Postsecondary Education (OPE) Identfication Number, which appears on the last page of the Institutional Eligibility Notice, following the signature block. This number should be used in all future correspondence with the Division of Eligibility and Certification.

6. ADDITIONAL INFORMATION. For each Program administered by the Department of Education for which the institution has been designated as eligible to apply for participation, please refer to the CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) or descriptive program information and the name and address of the Department of Education contact person. Each Federal assistance program is assigned a CFDA Number. (This Catalog is updated semi-annually by the Office of Management and Budget and is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C., 20402).

If you have any questions concerning these Requirements or the information contained in your Institutional Eligibility Notice, please write to:

U. S. Department of Education
Office of Postsecondary Education
Division of Eligibility and Certification
Washington, D. C. 20202

or call:
The Higher Education Institutional Eligibility Branch on (202) 732-3465; or the Occupational/Vocational Eligibility Branch on (202) 732-4906.

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

Our Reference: OPE:OHEP:DEAE:OVEB-E-9

Accredited by: NHSC
Control: Prop.
EIN# 59-2221740
*Re:
American Career Training Travel School
4699 North Federal Highway
Pompano Beach, Florida 33064

Mr. Joseph Calareso
President
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

INITIAL ELIGIBILITY

Eligible program: Basic Training for the Travel Industry

Dear Mr. Calareso:

It is a pleasure to inform you that the school listed above*, operating at the address indicated, is considered to be an "eligible institution" for the Guaranteed Student Loan Program.

Students attending the school may be eligible to apply for educational loans which are made by participating lenders to be insured by the Federal Government or guaranteed by a State or private nonprofit agency. The eligible student must be enrolled in an accredited postsecondary program of vocational or technical education, at least 300 clock hours in length, which is designed to provide occupational skills more advanced than those generally provided at the high school level and fit individuals for useful employment in recognized occupations. An eligible correspondence program is defined in the regulations as requiring not less than an average of 12 hours of preparation per week over any 12 week period and completion in not less than 6 months. The enclosed supplemental information and instructions contain brief information on the program and further procedures.

Please note that this eligibility pertains to the school listed at the above address as long as it remains accredited by a nationally recognized accrediting agency or association, continues to operate under the same ownership, and has not violated or failed to carry out any regulations prescribed by the Secretary of Education. Please notify this Office immediately of any name, address, or ownership change to assure continuation of the eligibility status of the school.

Sincerely yours,

John Uchima
Occupational/Vocational Eligibility Branch
Division of Eligibility and Agency Evaluation

Enclosures
cc: ILCB:CSS:OVEB

ILCB
FINANCIAL ANALYSIS SECTION
EVALUATION SHEET

NAME OF INSTITUTION: American Career Nursing-Med School

CITY AND STATE : Pompano, Fl 33064

THE FOLLOWING **KEY FACTORS** CAUSED THE ______ DECISION

All essential elements of the above institution's financial statement are positive, therefore approval is recommended.

RECOMMENDATIONS:

✓ APPROVAL ____ DISAPPROVAL
____ PERFORMANCE BOND
____ PARTICIPATION LIMITED TO ____
____ OTHER

APPROVAL WITH CONDITIONS:

____ ESCROW AGREEMENT
____ IRREVOCABLE LETTER OF C
____ CERTIFICATION OF FINANC STATEMENTS
____ SUBORDINATION OF L/T STOCKHOLDERS' DEBT

(Analyst) 4/25/85 (Dat

✓ APPROVAL ____ DISAPPROVAL

COMMENTS IF NECESSARY: WOC

(Section Chief) 4/25 (Da

FINANCIAL ANALYSIS SECTION
FINANCIAL STATEMENT SUMMARY SHEET
CASH/ACCRUAL ACCOUNTING

NAME OF INSTITUTION: American Career Training-Travel Sch Inc

CITY/STATE: Pompano, FL 33064

☐ Audited by CPA ☑ Certified by Institution

Balance Sheet Statement Date: 12/31/84

Assets		**Liabilities**	
Cash	13,957	Accounts Payable	12,646
Marketable Securities		Notes Payable	9,787
Accounts Receivable	441,423	Taxes Payable	74,363
Inventories		Unearned Income	199,624
Other Current Assets	2,346	Other Current Liabilities	25,243
Total Current Assets	457,726	Total Current Liabilities	321,663
Total Non-Current Assets	30,328	Total Non-Current Assets	93,088
Total Assets	$488,054	Total Liabilities	$414,751

Current Ratio	1.4 : 1	Net Income Statement Period Ending:	
Net Working Capital	136,063	12/31/84	(12 months)
Net Worth	73,303	Total Revenue	$790,505
Retained Earnings	72,303	Total Expenditures	689,961
		Net Income (Loss)	$100,544

Laura L. [illegible] 4/25/85
Analyst Date

American Career Training

TRAVEL SCHOOL

Dade 947-9900 · *Broward* 946-5551 · *Palm Beach* 736-1402

4699 North Federal Highway, Suite 106, Pompano Beach, Florida 33064

April 3, 1985

The figures presented in the attached financial statement are true and correct to the best of my knowledge.

Sincerely,

Joseph A. Calareso
President

AMERICAN CAREER TRAINING CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 1984

(WITH ACCOUNTANTS' REVIEW REPORT)

AMERICAN CAREER TRAINING CORPORATION
DECEMBER 31, 1984
(SEE ACCOUNTANTS' REVIEW REPORT)

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Accountants' Review Report 1

Financial Statements

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Statement of Income and Retained Earnings 3

Statement of Changes in Financial Position 4

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PANNELL
KERR
FORSTER

Certified Public Accountants

2441 Hollywood Boulevard
Hollywood, FL 33020
Telephones
(305) 920-4572 Broward
(305) 945-5306 Dade

Board of Directors and Stockholder
American Career Training Corporation

We have reviewed the balance sheet of American Career Training Corporation as of December 31, 1984, and the related statements of income and retained earnings and changes in financial position for the twelve months then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of American Career Training Corporation.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

Pannell Kerr Forster

February 13, 1985

AMERICAN CAREER TRAINING CORPORATION
BALANCE SHEET
DECEMBER 31, 1984
(SEE ACCOUNTANTS' REVIEW REPORT)

ASSETS

Current Assets	
Cash	$ 13,957
Accounts receivable	441,423
Prepaid rent	2,346
Total Current Assets	457,726
Property and Equipment, at cost, net of accumulated depreciation of $19,063 (Notes 1, 2 and 3)	27,581
Other Assets	2,747
Total Assets	$488,054

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities	
Accounts payable	$ 12,646
Accrued commissions	25,243
Payroll taxes	22,441
Deferred income	199,624
Deferred income taxes	51,922
Current portion of long-term debt (Note 3)	9,787
Total Current Liabilities	321,663
Long-Term Debt, net of current portion (Note 3)	2,447
Loans Payable - Officers (Note 4)	90,641
Total Liabilities	414,751
Stockholder's Equity	
Common stock - $1.00 par value, 1,000 shares authorized, issued and outstanding	1,000
Retained earnings	72,303
Total Stockholder's Equity	73,303
Total Liabilities and Stockholder's Equity	$488,054

See notes to financial statements

	Revenue	Operating Exp.
1-84	37,862	26,750
2-84	33,218	36,197
3-84	37,373	31,943
4-84	43,861	39,669
5-84	40,490	46,586
6-84	47,079	46,215
7-84	51,733	49,496
9-84	55,838	69,749
10-84	65,853	64,106
11-84	50,625	65,042
12-84	36,735	46,382
	500,667	522,135

($21,468)

application for certification
Form (633)

Monthly Statement of Revenue and Expenses
Pollak, Koross, Reiss & Associates, P.A.

AMERICAN CAREER TRAINING CORPORATION
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1984
(SEE ACCOUNTANTS' REVIEW REPORT)

Revenue	
Training fees (Note 1)	$788,905 ✓
Operating Expenses	
Commissions	175,747
Payroll	144,272
Advertising	124,804
Postage and supplies	29,359
Telephone	27,700
Rent	24,824
Printing	20,470
Travel	15,487
Payroll taxes	12,132
Insurance - group	10,479
Entertainment and promotion	10,147
Depreciation	9,103
Repairs and maintenance	6,385
Legal and accounting	6,205
Class materials	4,736
Utilities	3,788
Licenses and permits	3,680
Contract labor	3,370
Other	3,229
Interest	1,079
Computer leasing	1,043
Total Operating Expenses	638,039
Income From Operations	150,866
Other Revenue	1,600 ✓
Income Before Income Taxes	152,466
Provision for Income Taxes - Deferred (Notes 1 and 6)	51,922
Net Income	100,544
Accumulated (Deficit) - Beginning	(28,241)
Retained Earnings - Ending	$ 72,303

AMERICAN CAREER TRAINING CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1984
(SEE ACCOUNTANTS' REVIEW REPORT)

Source of Funds	
From operations	
Net income	$100,544
Add: Item not affecting working capital	
Depreciation (Note 1)	9,103
Working capital provided from operations	109,647
Increase in officers' loans	41,380
Total Funds Provided	151,027
Application of Funds	
Decrease in long-term debt	8,971
Purchase of property and equipment	757
Increase in other assets	576
Total Funds Applied	10,304
Net Increase in Working Capital	$140,723
Changes in Components of Working Capital	
Increase in current assets	
Cash	$ 16,458
Accounts receivable	366,193
Prepaid rent	604
	383,255
Decrease in current liabilities	
Accounts payable	7,394
Accrued commissions	22,733
Payroll taxes	18,227
Deferred income	142,256
Deferred income taxes	51,922
	242,532
Net Increase in Working Capital	$140,723

See notes to financial statements

AMERICAN CAREER TRAINING CORPORATION
NOTES TO FINANCIAL STATEMENTS
(SEE ACCOUNTANTS' REVIEW REPORT)

1. Summary of Significant Accounting Policies and Other Information

a) Operations and Other Information

The Company is a training school for travel agents, and has an application pending with the Accrediting Commission of the National Home Study Council for accreditation as an American Career Training Travel School. The Company operates on a May 31 fiscal year-end.

b) Property and Equipment

Property and equipment is stated at cost and depreciated under the accelerated cost recovery system over five years.

c) Investment Tax and Jobs Credits

The Company accounts for its invesment tax and jobs credits under the flow-through method.

d) Revenue Recognition

Training fees are recognized as revenue over the term of the related program.

2. Property and Equipment

Property and equipment consists of the following:

Computer equipment	$ 29,360
Furniture and office equipment	16,698
Leasehold improvements	586
	46,644
Less: Accumulated depreciation	19,063
	$ 27,581

3. Long-Term Debt

Long-term debt consists of an equipment financing note payable in monthly installments of $900 including interest at 20.42 percent; secured by computer equipment. The total principal balance remaining at December 31, 1984 is $9,787 due in 1985 and $2,447 due in 1986.

4. Loans Payable - Officers

Loans payable to officers are unsecured and non-interest bearing, with no definite terms of repayment.

5. Leases

The Company has entered into an operating lease for computer equipment, expiring in 1987. Future minimum rental payments required on the lease are $1,183 in 1985; $1,183 in 1986 and $394 in 1987.

The Company also leases office and classroom space under leases that are for terms not in excess of one year.

6. Income Taxes

Deferred taxes arise from the use of the accrual method of accounting for book purposes and the cash basis for tax purposes. The provision is comprised as follows:

Federal Income Taxes	$49,921
State Income Taxes	7,377
Investment Tax Credit	(4,664)
Jobs Credit	(712)
	$51,922

The Company has net operating loss carryforwards of $54,000, of which $35,000 expires in 1998 and $19,000 expires in 1999.

FEB 22 '88 13:17 FROM NHSC IN WASH DC P.2/14

NATIONAL HOME STUDY COUNCIL
1601-18th STREET, N.W. • WASHINGTON, D. C. 20009 • 202-234-5100

Office of the Executive Director

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 16.

January 29, 1988

Mr. Joseph A. Calareso, President
American Career Training Travel School
4699 North Federal Highway
Pompano Beach, FL 33064

Dear Joe:

Here is the ad we discussed from the January 27th Washington Post. Note the "L.H.P." for a city is not too clear, and we know you'll want to change it.

Also, here are the policy statements on resident training sites. Please call if you have any questions.

The Accrediting Commission records indicate that the only Secretarial course it has accredited is a "pure" correspondence course -- with no resident training. You will want to remedy this by requesting specific course approval and arranging for an on-site review.

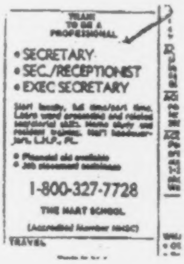
I look forward to seeing you in California.

Sincerely yours,

Mike

Michael P. Lambert
Associate Director

br
Enclosures



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- EXEC SECRETARY

1-800-327-7728

THE HART SCHOOL

(Accredited Member NHSC)

TRAVEL

The nationally recognized professional association of home study schools—a nonprofit public service organization

ACCREDITING COMMISSION
NATIONAL HOME STUDY COUNCIL
1601 • 18TH STREET, N.W. • WASHINGTON, D.C. 20009 • 202-234-5100

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ATTORNEY/CONSULTANT

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WILLIAM A. FOWLER
EXECUTIVE SECRETARY

MICHAEL P. LAMBERT
ASSISTANT SECRETARY

ELIZABETH M. ROCHE
ACCREDITING PROGRAM ASSISTANT

January 11, 1989

Mr. Joseph A. Calareso, President
American Career Training Corporation
4699 North Federal Highway
Pompano Beach, FL 33064

Dear Joe:

The Accrediting Commission of the National Home Study Council met January 4-7, 1989 and affirmed the approval of the following resident training site for the Hart School for Professional Secretaries:

Secretarial Training Site
Vantage Point Office Center
4699 North Federal Highway
Pompano Beach, Florida 33064

You have received and responded to the Chairman's Report. Please continue to keep the Commission posted on your plans, and let us know how we may help.

Congratulations on the approval of your new secretarial training site.

Sincerely yours,

Bill

William A. Fowler

br

cc: Dr. Hester L. Turner
Joseph C. Luman, Esq.

AMERICAN CAREER TRAINING CORPORATION

A.C.T.
TRAVEL
SCHOOL

THE
HART
SCHOOL
FOR
PROFESSIONAL
SECRETARIES

August 11, 1988

Accrediting Commission
National Home Study Council
1601 18th Street
Washington, D.C. 20009

Attn: Elizabeth M. Roche

re: The Hart School For Professional Secretaries Site Approval

Dear Betsy,

Per your request, this letter will confirm my receipt of the Chairman's Report pertaining to the captioned matter. In response, I am in general agreement with the Committee's findings and, most importantly, would like, once again, to express my appreciation for everyone's involvement and consideration . There are, however several matters set forth in the subject report which, I believe, need to be clarified and made a part thereof.

Initially, as to the written lease agreement, it is unclear as to whether the Chairman received a copy of the entire document, including all addendums. Our records reflect that a complete copy was forwarded; however, it appears that the main lease may have been inadvertently ommitted and only the addendums to the lease were received. Enclosed, therefore, you will find a complete lease agreement for your records. In connection with the lease term, be assured that our corporate counsel is in the process of finalizing a new five (5) year lease agreement between Calareso Real Estate Partnership, as Lessor, and American Career Training Corporation, as Lessee, for the training site. Once completed, I will gladly forward a copy to you for your records. In addition, I have also enclosed a copy of the warrenty deed wherein Calareso Real Estate Partnership acquired title to the subject complex from Dr. and Mrs. Redd d/b/a Eldorado Properties.

As to the content of lessons 7 and 9 of the home study portion of the program, more particularly, the material relating to the areas of record management and business correspondence, the suggestions regarding incorporation of the indexing rules of the Association of Recordc Managers and Administrators has been brought to the attention of both the Resident Training instructors and writers/editors in our program development department for appropriate consideration.

AMERICAN CAREER TRAINING CORPORATION

A.C.T.
TRAVEL
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THE
HART
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FOR
PROFESSIONAL
SECRETARIES

Finally, in connection with the actual training of the student while at our facility, this will confirm that not only has provision been made for comptency testing in the area of speedwriting but also a typewriter has been placed in each room affiliated with our operations housing students attending the Hart School.

Hopefully you will find this response to be both complete and satisfactory. In the event you have any questions, please do not hesitate to contact me.

Thank you for your assistance.

Sincerely,

Joseph A. Calareso

JAC/bsb

Enclosure

FEDERAL EXPRESS

4699 NORTH FEDERAL HIGHWAY, POMPANO BEACH, FLORIDA 33064 (305) 946-555

dup 11/9/88

EXAMINING COMMITTEE CHAIRMAN'S REPORT

ON THE EXAMINATION OF

THE HART SCHOOL FOR PROFESSIONAL SECRETARIES
(A Division of A.C.T Travel School)
Vantage Point Office Center
4699 North Federal Highway
Pompano Beach, Florida 33064

Visitation Date
21 July 1988

Submitted By

Gerald O. Allen

CONFIDENTIAL

EXPLANATION OF REPORT FORMAT

In view of the scope of the evaluation of a training site not yet in operation for the students of a combination home study/resident program, this Chairman's Report will consist of:

1. A narrative listing of observations and findings relating primarily to the subjects covered by the Commission's Procedures for the Approval of Resident Training Sites.
2. Items presented in comment form by members of the examining team.
3. The Evaluator's Rating Form (Commission Document 3.1.1) prepared by the Chairman.

It is hoped that this format will reduce redundancy in the report and make it more meaningful to both the Commission and the staff of the subject school.

COMMITTEE FINDINGS

1. With the Training Site Report, the school submitted a copy of a lease covering a period of three years ending July 31, 1988. Furthermore, the designated lessor no longer owned the site in question. At the time of the on-site examination the school was not able to provide the team with either evidence of the change of ownership or a new lease running from August 1, 1988. A few days later the school furnished the Team Chairman with a document entitled "Addendum Lease" indicating the lessor to be Calareso Real Estate Partnership and the lessor to be American Career Training Corp. This "addendum" does not specifically state to what it refers (other than an address for the property) and it obligates the parties for only one month on a month to month basis. While it can be assumed that the document refers to the original lease (which expired 7/31/88), that point should be clarified.

   In addition, one of the primary concerns involved with site locations is the stability of the operation. A month to month tennancy does not appear to assure the requirement of stability. It is recommended that a new lease be prepared which sets forth all of the rights and obligations of both the lessor and the lessee and for a realistic term which reflects stability and continuity.

   Finally on this subject, the school has submitted a document dated January 14, 1988 which purports to assign the original lease (which expired on 7/31/88) to Calareso Real Estate Partnership. There appears to be no evidence to support the transfer of ownership of the property to Calareso Real Estate Partnership. Thus, since the original lease expired on 7/31/88, the assignment of the lease also terminated on that date. And, since the "Addendum Lease" is not supported by any evidence establishing a change of ownership from the original owners to Calareso Real Estate Partnership, there does not, on the record, appear to be any legal lease after 7/31/88/

2. Subsequent to the original approval of the Hart School for a home study program in secretarial skills, the school was given "interim approval" for a combination home study/resident program in this subject area. This is reflected by:
   a. The 1988-89 NHSC Directory of Accredited Schools
   b. The Hart School Catalog dated January 1, 1988
   c. Miscelaneous media advertising
   d. Enrollment Agreement for dated 4/88.

   Advertising and promotional materials appear to be in compliance with Commission Standards.

3. Lessons 7 and 9 of the home study materials do not reflect current practices in the areas of record management and business correspondence. It is recommended that the indexing rules of the Association of Records Mangers and Administrators be given special coverage in the home study materials and reinforced during the resident phase.
4. In the area of typing training, the school recognizes that not all students will arrive at the resident phase with equal (or even minimal) skills. In addition to the remedial attention planned for less skilled students, it is suggested that the school provide at least one typewriter at each of housing units for out-of-class practice.

5. There appears to be no provisions for competency test-

ing in the area of speedwriting. It would seem that if training is offered in this subject (and it is), then there should be arragements for testing on the basis of so many words per minute. As in the area of typing, prospective employers are very much interested in an objective measurement of both speed and accuracy.

6. The Director of Education and the Instruction Staff appear to have excellent qualifications for the work they are and will be performing.

7. The school has developed a good resident Program of Instruction and good instructor/student ratios are projected.

8. The physical facilities (site, equipment, etc.) are excellent. The school has purchased all of the equipment necessary to support its Program of Instruction and the projected student load.

9. Adequate insurnace coverage has been provided and state and local occupancy and use permits have been secured. The representative of the State of Florida education regulatory agency indicate complete satisfaction with the operations of both the Hart School and its parent company.

10. Meals and lodging are the responsibility of the student. However, excellent facilities for housing are owned by the Calareso Real Estate Partners and students may, if they so choose, use these facilities at their own expense. The school provides free transportation to and from the school.

11. Arrangements have been made for both student counsel-

ing and job placement assistance.

12. Financial aid is available to qualified students and personnel in the school's companion institution (American Career Travel Training School) finacial aid department will also serve students of the Hart School. In a similar joint utilization of administrative services, all student records (both home study and resident) will be maintained by ACCTS staff.

Respectfully submitted,

Gerald O. Allen

Gerald O. Allen

Page 8

Accrediting Commission
of the
National Home Study Council

G. ATTER
Evaluator

Hart School
School Evaluated

7/21/88
Date

CHECK LIST FOR EVALUATORS OF COMBINATION HOME STUDY-RESIDENT PROGRAMS

This is a guide to help Examining Committee Members evaluate schools with combination programs. This check list is to be used in preparing written comments on the school and may be attached to the evaluator's report to the Accrediting Commission. Any explanatory comments should be attached to this form.

I. Advertising and Promotion	YES	NO
1. Do all ads and other promotional materials state clearly that both home study and resident training are offered? (Language used must be understandable to average reader. "Corr.-Res. Trng." is unacceptable.)	✓	
2. Do all ads list full name of school and location of home school headquarters?	✓	
3. Do all ads clearly indicate that training -- not employment -- is being offered?	✓	
4. Do ads or literature avoid mention of the availability of federal aid as a primary inducement for enrollment?	✓	
5. Does the top school management have an effective system for approving all ads and promotional materials used by salesman prior to their use?		
6. Has each salesman signed a written employment agreement which is on file at the school?		
7. Does the school provide each salesman with a bona fide training program which includes coverage of NHSC Business Standards and Code of Ethics for Sales Representatives?		
8. Will the school accept a student cancellation whatever the manner of notification?		

	YES	NO
9. Are refunds made without the requirement for the student to fulfill special conditions such as the return of kits, tools or materials?		
10. Are the tuition prices for home study and resident training separately stated on the enrollment contract?	✓	
11. Is the tuition fairly distributed for each portion of the course?		

II. Course Structure and Materials

	YES	NO
1. Are students enrolled in both phases of training at the same time?	✓	
2. Does a substantial home study phase precede the resident phase and must it be successfully completed before the student can enter the resident phase?	✓	
3. Does the home study material provide meaningful information necessary for the achievement of the course objective?	✓	
4. Is the home study portion a bona fide correspondence study program which students must study at a distance from the school?	✓	
5. Does the school adequately score, evaluate, comment on and return to students all required home study lesson submissions?	✓	
6. Does the school have an organized and effective system to provide encouragement to students to begin, continue and complete the course?	✓	
7. Is the program organized to preclude the study, submission or evaluation of home study lessons while the student is at the school or when the student is in the resident phase of the training?	✓	
8. Does the resident training avoid unnecessary duplication of the home study material?	✓	
9. Are resident instructors familiar with the content and scope of the home study course?	✓	

	YES	**NO**
10. Do resident instructors have access to -- and make use of -- the students' home study academic records? Are home study records retained by resident program instructors as they teach and counsel students?		

III. What Do The Students Say?

Based on information obtained in interviews at the training site,

1. Was the initial student contact made in accordance with Standards? (Not in an unemployment or welfare office line for example.)	No resident students pending site approval	
2. When they were enrolled did students clearly understand that:		
(1) they were enrolling in a combination course?		
(2) they had to complete home study lessons prior to attending resident training?		
3. Did the training program received by students agree with their understanding of the statements made by sales representatives?		
4. If the student received a federal loan, did the student understand that it is an obligation that must be repaid?		
5. Are students satisfied with the training and instructional services they received?		

FLORIDA DEPARTMENT OF EDUCATION
Betty Castor
Commissioner of Education

September 22, 1987

Mr. Joseph A. Calareso
American Career Training Travel School
4699 North Federal Highway
Suite 106
Pompano Beach, Florida 33064

RE: COURSE(S)-ADDITIONS/DELETIONS/AMENDMENTS

Dear Mr. Calareso:

The State Board meeting in regular session on September 18, 1987 approved your request for the following:

The Hart School for Professional Secretaries -
Professional Secretarial Training - 400 Hours

Florida Administrative Code Rule 6F-2.005 states that when a school adds, deletes or amends a course or program, it shall publish a revised catalog or publish a printed supplement to be physically attached to the catalog.

Best wishes in the continued growth of your school.

Sincerely,

Samuel L Ferguson

Samuel L. Ferguson
Executive Director
State Board of Independent Postsecondary
Vocational, Technical, Trade and Business
Schools

SLF:rw

[redacted]hassee, Florida 32399
[redacted]tive action/equal opportunity employer

ACCREDITING COMMISSION
NATIONAL HOME STUDY COUNCIL
1601 - 18TH STREET, N.W. • WASHINGTON, D.C. 20009 • 202-234-5100

HESTER L. TURNER, Esq., *Chairman*
ATTORNEY/CONSULTANT
ROY O. STUART, *Vice Chairman*
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ART INSTRUCTION SCHOOLS
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PRESIDENT
NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES
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WILLIAM L. WRIGHT
PRESIDENT
AMERICAN SCHOOL

WILLIAM A. FOWLER
EXECUTIVE SECRETARY
MICHAEL P. LAMBERT
ASSISTANT SECRETARY
ELIZABETH M. ROCHE
ACCREDITING PROGRAM ASSISTANT

June 11, 1987

Mr. Joseph A. Calareso, President
A.C.T. Travel School
4699 North Federal Highway
Pompano Beach, FL 33064

Dear Mr. Calareso:

The Accrediting Commission of the National Home Study Council met on June 5-6, 1987 and it is a pleasure to advise you that it has confirmed the approval of the Hart School for Professional Secretaries' new Secretarial course.

We join with the members of the Accrediting Commission in extending our congratulations and best wishes for your success with this new program.

We look forward to receiving a copy of the final edition of the Secretarial course when it is available.

Sincerely yours,

William A. Fowler

br

cc: Dr. Hester L. Turner
Joseph C. Luman, Esq.

10-20-87

02295900

25L02

19. TO BE COMPLETED BY ANY INSTITUTION WHICH DID NOT COMPLETE ITEM 18. LIST ALL THE PROGRAMS OFFERED BY THE INSTITUTION AND STATE THEIR LENGTH. INDICATE WHETHER EACH PROGRAM LEADS TO A DEGREE OR CERTIFICATE

NAME OF PROGRAM	LENGTH OF PROGRAM			LEADS TO DEGREE OR CERTIFICATE (Specify)
	WEEKS	HOURS PER WEEK IF ON CLOCK HOUR BASIS	CREDITS IF ON SEMESTERS, QUARTERS, OR TRIMESTERS	
Hart School for Professional Secretaries' - Professional Secretarial Training	23.3 3	12 40	(home study)	Certificate - 2

23.3
12

2/22/90 - per telecon w/ David Buckley

23.3
12
466
233
279.6 - corresp
120 - resident
399.6 hrs

1st 4 lessons, ACT advises student to take a 2 wk break

CERTIFICATION

I CERTIFY that to the best of my knowledge and belief, the information provided in the document is true and correct. I understand that providing false or misleading information may result in the denial of the institution's request for eligibility once it has been granted. I also understand that I may be subject to a fine or not more than $10,000 or imprisonment for not more than 5 years, or both, under provision of the United States Criminal Code.

SIGNATURE OF RESPONDENT

DATE 8-19-87

TYPE NAME AND TITLE JOSEPH A. CALARESO, PRESIDENT/REGISTRAR

TELEPHONE NUMBER (Include area code) 305 946 5551

RECEIVED BY
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SUBCOMM ON INVESTIGATIONS
FEB 27 1990
MAJORITY OFFICE

EDUCATION MANAGEMENT CORPORATION

MIRYAM L. DRUCKER
President and Chief Operating Officer

February 23, 1990

Senate Permanent Subcommittee on Investigations
EXHIBIT # 18.

David B. Buckley
Investigator
Permanent Subcommittee on Investigations
Senate Committee on Governmental Affairs
100 SROB
Washington, DC 20510-6262

Dear Mr. Buckley:

I was glad to have the opportunity to speak with you today. I know you, Miss Hill, Senator Nunn and others on his staff are deeply concerned about education issues, and so are we. We feel we must try to make a difference in the way non-traditional education is perceived in Washington.

The Art Institutes comprise 13,000 students from all 50 states and 45 foreign countries, in associate and baccalaureate degree programs in commercial art, interior design, photography; and in training for the retailing, music and video industries. We employ 1,700 faculty and staff who, through an ESOP, own part of the Company. Our schools - the Art Institutes of Atlanta, Dallas, Houston, Fort Lauderdale, Philadelphia, Pittsburgh, Seattle and the Colorado Institute of Art in Denver - are the foremost producers of commercial artists in America. Approximately 90% of our graduates obtain employment in the fields for which they have been trained. We have more than $100 million committed to facilities and equipment to support our educational programs.

There is concern over the level of student loan defaults, but it is an issue not well understood and, at the heart, the problem is the balance between grant and loan funds. There also are questions concerning institutional eligibility and accrediting standards.

The loan default rates among the students at The Art Institutes are relatively low, but we are concerned that because our schools are privately owned and privately financed, we may be subject to discrimination in the legislative or regulatory process.

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As you know, some members of the traditional academic community would like to see the financing for students attending vocational education programs come from the Department of Labor, as opposed to existing Title IV funds. We think that would be a terrible mistake and would reverse a policy of equal access to financial aid on the part of students regardless of which accredited educational institution is chosen. We care about the success of our graduates as much as, or more than, those at any other educational institution; and as our students are with us for effectively three academic years, our faculty and staff impart a great deal of life skills as well as job and technical skills.

Enclosed is a copy of testimony Robert B. Knutson, our Chairman, presented at the U.S. Department of Education's hearings on Reauthorization of the Higher Education Act of 1965, as well as a notebook containing our Response comprising 44 recommendations for changes to Title IV programs. I hope you have the opportunity to consider our proposals and include them in the record of the hearings now being conducted by the Committee on Government Affairs, Permanent Subcommittee on Investigations.

Most observers consider The Art Institutes to be one of the leading organizations in the private sector. We are concerned that the right regulatory and legislative decisions are made in the interests of all concerned.

Bob Knutson and I look forward to working with you, Miss Hill and Senator Nunn in the coming months. I hope you accept my invitation to visit one or all of The Art Institutes. I shall call you in mid-March, after you have had a chance to review our materials, to arrange a meeting. If you should have any questions or need additional information, please call.

Sincerely yours,

Enclosures

PRESENTATION
TO THE
U.S. DEPARTMENT OF EDUCATION
REAUTHORIZATION OF THE
HIGHER EDUCATION ACT OF 1965

WASHINGTON, D.C.
NOVEMBER 20, 1989

ROBERT B. KNUTSON
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EDUCATION MANAGEMENT CORPORATION
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Good morning. I am Robert Knutson, Chairman and Chief Executive Officer of Education Management Corporation, headquartered in Pittsburgh, Pennsylvania.

Here today also are Miryam Drucker, President and Chief Operating Officer, and Ellen Blackmun, Vice President and Director of Student Financial Aid Administration.

Education Management Corporation is the parent organization of The Art Institutes - a nationwide group of schools with approximately 12,000 students.

The eight Art Institutes are located in Pittsburgh, Philadelphia, Atlanta, Fort Lauderdale, Denver, Houston, Dallas and Seattle.

I have spent almost twenty years in the field of private vocational education.

I am here this morning to express my views regarding the critical issues facing the Department of Education, the Congress, the higher education community, and the nation, in the upcoming Reauthorization of the Higher Education Act.

Mr. Secretary, I don't believe it is your intent or desire to remove hundreds of thousands of students from eligibility for Title IV programs - those students who attend privately financed, tax-paying educational institutions which offer specialized vocational training programs.

Yet I'm sure you can understand my concern when I first read the announcement of these hearings and saw the accusatory questions regarding the proprietary sector and, in stark contrast, the supportive questions regarding community and junior colleges.

I believe in our community and junior college system. It serves a vital function in our society.

I also believe the United States should continue to be an economic democracy, with freedom of choice and equal access to education, for all - regardless of whether one chooses to become an anthropologist, or a nurse's aide.

Regardless, also, of whether the institution providing that training is supported by public monies, or whether it pays taxes on the difference between its revenues and its expenses.

The income tax status of a school does not determine how much an instructor or a professor cares about teaching, or about students and their success.

Because I know that proprietary schools are currently misunderstood, I am committed to working with you, Mr. Secretary, and with the Congress, to return complete integrity to the administration of financial aid programs in higher education - especially in private career schools. The solution lies not in treating our sector as a monolith, but in removing certain schools, and modifying those federal policies which contribute to the likelihood of student loan defaults.

We are submitting today written testimony which provides a comprehensive set of 44 recommendations designed to -

1. Improve financial aid administration and the delivery of aid to students
2. Reduce the dependence on loans of academically "at risk" and low income students, and
3. Reduce or eliminate the access of certain types of students to debt-oriented financing.

I will restrict my remarks today to two observations, but first allow me to say a few words about my organization so that you can place our comments in perspective.

Together The Art Institutes are the country's largest single source of commercial artists, and are also major trainers of interior designers, photographers and personnel for the retailing industry, and for the music and video industries.

Students at The Art Institutes come from all 50 states and from 45 foreign countries. Many of our new students already have received college level experience at another institution.

Most programs are the equivalent of three academic years long and culminate in the award of an associate degree.

Our students cover the entire spectrum from high income to low income, but on average, middle income America. We impart technical skills, job skills and life skills.

We employ more than 1,600 faculty and staff members. They share ownership in the company through an Employee Stock Ownership Plan.

The eight Art Institutes have been in operation for an average of 32 years each. We have more than $90 million in capital committed to our facilities and equipment.

According to the cohort rate calculations utilized by the Department for fiscal year 1987, the loan default rates for our students for that year averaged less than community colleges nationally. Of course our tuition rates, and therefore student loan amounts, are substantially higher than the community colleges because we do not receive public funding for our facilities, equipment and operating expenses.

In the management of student financial aid, each of the Art Institutes employs between 7 and 13 people. We carefully counsel and budget our students. We also cause most of them to obtain part time jobs to help finance their education.

The Art Institutes' Employment Assistance offices maintain a mailing list of more than 30,000 employers. We have more than 50,000 alumni.

The business philosophy of my Company is very simple - everything we do must be based upon:

- quality service to our students;
- development, growth, involvement and recognition of our employees;
- and sound economic principles.

We impart quality, intensive, specialized education that works.

- - - -

The two observations I would like to make this morning in the limited time that we have are as follows:

First, there must be more grant aid for low income students.

I agree with the President of Morris Brown College, where the Atlanta hearings were held, when he said, "Let's put education on the same plane as a trip to Mars or an S&L rescue."

In the first year of full federal funding of the BEOG student grant program in 1975, the maximum grant per year was $1,400. Assuming that educational costs have increased by an average of 8% per year over the past 14 years, the Pell grant today should be more than $4,000. Instead, it is $2,300.

How can anyone expect that when loans are substituted for grants there will be any different result than an increase in loan defaults.

And I need to make a point that is continually missed in coverage of student loan defaults in the media and on Capitol Hill:

> Student loans are mandated by law to be awarded to people based on need. They are not based upon credit worthiness, co-signers, collateral, or cash flow from a known job, as with virtually every other loan made by lending institutions in our society.

Is a loan default a default when it should have been a grant in the first place?

It's a question of allocation of national resources. Are we going to invest in our citizens, or not?

Our written recommendations contain data regarding the very successful state of Pennsylvania student grant program, and how it has reduced Pennsylvania's unemployment rates, and materially increased the income level of low income families.

We are submitting a proposal for increasing federal grant aid coupled with a reduction in student loans.

The second observation I want to make today is that the Department of Education must have the resources to effectively monitor schools and the student loan programs.

We know how much the staffing of the Department has been cut in recent years. We have heard how you lack the necessary technological and human resources.

In a restricted budget environment, all sectors of postsecondary education must lend their wholehearted support for additional funding to the Department:

> Funding for computers, and personnel, to provide better, more timely data - in order to enforce regulations, to work with educational institutions on program reviews, to train people, to investigate consumer complaints, to use a rifle approach to challenge and rid the system of those schools which do not provide sound educational services to their students.

The eventual funding of the Department of Education's needs is uncertain. In the meantime, I submit that the Department must obtain more leverage on its personnel. May I suggest that to do your job you need to become more managers, rather than doers.

There are vast human resources available in the public and private sectors, if you ask:

- People from institutions such as ours and other vocational training organizations, and of course from the traditional colleges and universities.

- And enormous resources available to you through better coordination with state agencies, the Veterans' Administration, and the accrediting associations who regularly visit schools.

There are many people who care, as you do. Call for help and you will receive it, free of additional cost to the federal budget.

Now for the first time, and thanks to your efforts, Mr. Secretary, I believe there is a growing sense of shared responsibility among lenders, guarantee agencies, schools, students, and federal and state agencies.

I submit that all educational institutions and the U.S. Department of Education and the respective states have a mutual goal: graduate success.

We own the challenge as much as you do, and we want to help.

THE ART INSTITUTES

The Institutes

The Art Institutes, a nationwide group of associate and baccalaureate degree-granting professional schools, are leaders in career preparation for the visual and practical arts. Together, The Art Institutes are the single largest source of entry-level commercial artists in America today. They are also an important source of entry-level commercial photographers, interior designers and personnel for the retail merchandising industry and the music business field.

The Art Institutes occupy approximately 600,000 square feet of space in buildings either owned or controlled under long-term leases. All of the physical facilities have been newly constructed or renovated within the past four years.

The schools are accredited by the Accrediting Commission of the National Association of Trade and Technical Schools. In addition, The Art Institute of Atlanta is accredited by The College Commission of the Southern Association of Colleges and Schools. The Art Institutes share a Board of Advisors who oversee curricula and assist in graduate employer relations. The Board is made up of nationally recognized designers, photographers, fashion and education professionals.

In the fall of 1989, the total student enrollment was approximately 12,000. Students come to The Art Institutes from the 50 states and 45 foreign countries. Forty percent of new students have had a year or more of college-level training at another educational institution. Active student councils sponsor many social and charitable events within each of the schools' communities. Some of the specialized clubs and organizations catering to students' interests are student chapters of the Professional Photographers Association, the American Society of Interior Designers, National Press Photographers Association and the Distributive Education Clubs of America.

School-sponsored housing provides comfort and security for resident students. The schools also help students in finding roommates and locating suitable living arrangements.

The validity of The Art Institutes' educational approach is measured by the record established by their graduates: approximately 90% obtain employment in their fields within nine months after graduation. For in-school students, part-time jobs and free-lance job opportunities are available through the employment assistance offices of each school.

Locations

The Art Institute of Atlanta - Atlanta, Georgia
The Art Institute of Dallas - Dallas, Texas
The Art Institute of Houston - Houston, Texas
The Art Institute of Fort Lauderdale - Fort Lauderdale, Florida
The Art Institute of Seattle - Seattle, Washington
The Art Institute of Pittsburgh - Pittsburgh, Pennsylvania
The Art Institute of Philadelphia - Philadelphia, Pennsylvania
The Colorado Institute of Art - Denver, Colorado

Majors and Degrees

Associate degree programs are available in visual communications (commercial art), fashion merchandising, fashion design, fashion illustration, interior design, music and video business, photography, travel and tourism, landscape design and industrial design.

Bachelors degree programs are available in business management and in fashion marketing at the Fort Lauderdale campus.

Evening diploma programs are available in applied photography, layout and production art and residential design.

Academic Program

The Art Institutes operate on a quarter calendar. Education programs are offered on a year-round basis so that students may pursue their studies without interruption. Most associate degree programs are eight quarters long, equivalent to three academic years. Evening diploma programs are four quarters long. Program length depends on the major selected. In order to earn a diploma or associate degree, the student must maintain a minimum grade point average of 2.0 (on a 4.0 scale). Baccalaureate degree programs, which are offered at The Art Institute of Fort Lauderdale, require the equivalent of five academic years to complete. In addition, course transfer agreements are available with several colleges.

Academic Facilities

Depending on education program offerings, The Art Institutes' facilities include art galleries; interior design studios; industrial design shops; industrial cutting, sewing, knitting and pattern-making rooms; computer laboratories; audio recording studios; video studios; photography darkrooms; photography studios; video, audio and photography checkout centers; drawing, life drawing and painting studios; as well as lecture classrooms.

Cost

Average tuition for the academic year commencing in the fall of 1989 is $6,516 for associate and bachelor degree programs and $3,876 for evening diploma programs. Housing costs vary by location and type. Dormitory, school sponsored and/or independent living housing options are available at each Art Institute; some meal plans are offered.

Financial Aid

Art Institute students are eligible to apply for financial assistance through the Pell Grant, Supplemental Education Opportunity Grant, Stafford Student Loan, Perkins Loan, College Work Study, Plus Loan, and Supplemental Loans to Students. State grant programs, as well as Vocational Rehabilitation assistance and Veterans Administration benefits are available to qualified students. Awards under these programs are based on individual need and the availability of funds. Students receiving financial assistance must maintain satisfactory academic progress as established by the Art Institute in which they are enrolled.

Approximately 70% of the student body receives some form of financial assistance. Each Art Institute employs six to 13 persons who devote full time to assisting students in their personal financial budgeting, and in administering financial aid programs.

Art Institute sponsored scholarship programs for new and continuing students are awarded on the basis of academic excellence, outstanding art work, financial need, or overall contribution to the Institute. These scholarships totalled approximately $900,000 for the year ending June 30, 1989.

Faculty

Collectively The Art Institutes employ approximately 800 full-time and part-time faculty. All are experienced professionals, and many have achieved regional and national recognition. Faculty members have excellent credentials and practical experience in the fields of art, design, fashion, travel, photography and communications. Each student is assigned a faculty advisor. The student-faculty ratio averages 22 to 1.

Admission Requirements

The Art Institutes operate on a rolling admissions basis. A high school diploma or successful scores on the General Education Development tests are a prerequisite for admission to The Art Institutes' diploma and associate degree programs. All applicants are evaluated on the basis of their previous education and background in their intended area of study or stated interest in art, design, fashion, photography, travel, or the music and video industries. Portfolios are welcomed but not required. Students applying to an upper-division baccalaureate degree program at the Fort Lauderdale school must possess a technical or specialized associate degree and have maintained a minimum 2.5 cumulative grade point average in associate-level course work.

Education Management Corporation
10/89

THE ART INSTITUTES

Student Financial Aid Program Participations

1988-89 Award Year

	# Students	$Program Participation (in thousands)
Grants		
Pell Grants	*6,175*	*$ 8,010*
Supplemental Grants (SEOG)	*2,000*	*895*
State Grants	*1,805*	*2,215*
Subtotal Grants		*$11,120*
Loans		
Perkins Loans	*2,265*	*$ 2,080*
Stafford Loans	*10,500*	*23,125*
PLUS Loans	*3,790*	*8,770*
SLS Loans	*1,625*	*9,410*
Subtotal Loans		*$43,385*
College Work Study		
Student Wages	*205*	*$315*
Total Program Participation	*11,160*	*$54,820*

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2/90

THE ART INSTITUTES

ED Cohort Borrower Default Rates

	FY'87
The Art Institutes' Cohort Default Rate	*16.6%*
National Cohort Default Rate - All Schools	*17 %*
National Proprietary Schools' Cohort Default Rate	*33 %*
National Public Two-Year Schools' Default Rate	*18 %*
National Private Two-Year Schools' Default Rate	*14 %*
National Four-Year Schools' Default Rate	*7 %*

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9/89

THE ART INSTITUTES

Placement Statistics

The National Record

- *After extensive research, we have been unable to find any national studies of student success in obtaining employment after graduation in their field of study.*

- *Most if not all students entering postsecondary institutions today have a career or employment objective, but do not have access to reliable data regarding their chances of meeting this objective.*

The Art Institutes' Record

- *Employment statistics maintained by The Art Institutes for many years show that approximately 90% of the schools' graduates obtain employment in their fields of study within nine months of graduation.*

- *This measurement of outcome does not consider the number of students who continue their education at other institutions of higher learning, or those who leave school for employment in their field prior to graduation.*

Education Management Corporation
10/89

THE ART INSTITUTES

Completion Rates

The National Record

- *Reliable data from Vincent Tinto's Leaving College (University of Chicago Press, 1987), which is based on National Center for Education Statistics data, contain the following record of national graduation rates, without interruption, from the original institution attended:*

4-year colleges - 44% graduate
2-year colleges - 27% graduate

- *When the same group of students is tracked for an extended period of time, the rates of graduation from any postsecondary institution, or "system completion" rates, increase to:*

4-year colleges - 61% eventually obtain some kind of degree
2-year colleges - 33% eventually obtain some kind of degree

The Art Institutes' Record

- *Under the "completion rate" measurement mandated by the Department of Education which is the graduation rate without interruption from the original Institute attended, we estimate that:*
  - *50% of The Art Institute students complete education programs equivalent to three academic years in length without substantial interruption.*
- *The Art Institutes have not historically tracked students who transfer to other institutions to pursue two-year or four-year baccalaureate degrees, therefore we are unable to estimate their "system completion" rate.*
- *We believe that the "system completion" rate of our students would compare favorably to the national four-year college rate because:*
  - *Approximately 25% of students who drop out from The Art Institutes re-enter The Art Institutes and many of these students eventually complete their program.*
  - *Also, many students who drop out go on to other institutions and eventually complete.*
- *The Art Institutes thus compare favorably with four-year colleges, and have substantially better completion rates than most two-year colleges.*

Conclusion

- *The student consumer, when provided with an isolated completion rate, will have no basis for comparison. We believe that the student consumer must have the opportunity to compare outcomes among all types of educational institutions and programs.*

Education Management Corporation
10/89

THE ART INSTITUTES

Positions on Key Issues

I. Disclosure of Completion Rates and Placement Statistics

- *We support "Students Right to Know" legislation requiring all postsecondary institutions to disclose these and other critical measures of outcomes.*
- *We encourage the Department of Education to take extraordinary steps to notify all schools affected by the current regulation and to enforce compliance.*

II. SLS Restrictions

- *SLS for first-year borrowers should not be eliminated. This is an important resource for adult students who need help to meet living and personal expenses.*
- *We support the Senate provision requiring 30-day delay of first disbursement as an alternative cost-saving measure.*
- *Institutions should be afforded greater flexibility to control the amount of the approved SLS.*

III. Teach-Out Agreements

- *The Department of Education should drop its proposed rule requiring all schools to have teachout agreements with other schools. This falls in the area of state licensing agencies.*
- *The Department should work closely with the states to ensure that state provisions adequately protect students from school closings.*

IV. Prohibition Against Commissioned Salesmen

- *A total ban on commissioned salesmen is an excessive measure.*
- *Salesmen should be prohibited from administering entrance tests, or making final admissions or financial aid decisions.*
- *Door-to-door canvassers or outside contractors should be banned.*

Education Management Corporation
10/89

THE ART INSTITUTES

Positions on Key Issues

I. Issue: Disclosure of Completion Rates and Placement Statistics

Discussion:

The final default reduction regulations issued by the U. S. Department of Education in June, 1989 include the new requirement that vocational programs disclose program completion rates and placement statistics to prospective students, beginning with periods of enrollment December 1, 1989 or later. The Department of Education specifies that if the explicit or implicit goal of the program is to prepare students for employment in a particular field, then the school must disclose the data. Thus the new disclosure requirement technically applies to all proprietary school, vocational school, junior college, and public community college programs that have a career training objective.

The Art Institutes, as well as many other privately owned schools, have for years calculated retention and placement rates. However, the methodology specified in the new regulations has never been used before. Most community colleges and other schools which operate under a not-for-profit charter do not routinely collect or make public such data. While the Art Institutes concur that schools should be held accountable and believe that all schools affected by the rule must be forced to comply, this accountability should ultimately be extended to all postsecondary institutions.

Company Position:

- *The Department of Education needs to take extraordinary steps to enforce compliance with the new disclosure rules by all schools that are affected. This should include at a minimum a letter to institution Presidents who are in the position to ensure compliance.*

- *We support "Students Right to Know" legislation whereby all postsecondary educational institutions would be required to disclose education program completion data, placement statistics, and other relevant measures of outcomes.*

II. Issue: SLS Restrictions

Discussion:

In the FY'90 budget reconciliation process the SLS loan program for independent students has been targeted by both the Senate and House to achieve required cost savings. The House has approved the elimination of SLS as a resource for all first year undergraduate students. The Senate supports a 30-day check disbursement delay for all new SLS borrowers, designed to reduce program expenditures for early dropouts.

The SLS program was created as an additional loan for self-supporting students which could be used to (1) meet the student's need if other need-based aid was insufficient, and/or (2) as a loan of convenience to replace the student's expected family contribution if that contribution was not immediately available to meet the student's costs. The use of SLS as a family contribution "replacement" is currently an option to the student which the school must approve.

Approximately 20% of new Art Institute students are first time SLS borrowers. A negligeable proportion of new students withdraw during the first 30 days of the program.

Company Position:

- *We oppose the elimination of SLS for first year borrowers because this is an important resource for adult students who need help to meet their living expenses.*
- *We support the Senate provision requiring a 30-day delay of first disbursements of SLS.*
- *We also believe that institutions should have greater ability to control the total amount of the SLS loan. While the use of SLS to meet need should not be restricted, the use of SLS as a family contribution replacement should be at the option of the institution as well as the student.*

III. Issue: Teach-Out Agreements

Discussion:

In June, 1989, the Department of Education proposed a new default prevention measure, whereby all career training schools would be required to have teach-out agreements with other institutions. The Art Institutes, NATTS, and other organizations responded to this proposal in August, 1989, emphasizing that this matter is more appropriately handled through the various state bonding and insurance provisions.

The proposal assumes that similar programs are offered at nearby institutions, and that the school can best determine what is in the student's best interests. We believe that neither is the case.

Company Position:

- *The Department of Education should drop the proposed rule.*
- *The Department should work closely with the various state licensing agencies to ensure that each state has strong provisions in place to protect students from school closings.*

IV. Issue: Prohibition Against Commissioned Salesmen

Discussion:

The proposal to restrict or totally prohibit the use of commissioned salesmen has appeared in proposed federal legislation several times in the past few years, most recently in Senate Bill #695. It is designed to curb perceived abuses in the admission of unqualified students who drop out and then default on their student loans.

The Art Institutes employ admissions representatives who are employees of the school and who receive both salary and incentive compensation, the latter primarily based on the student attending classes. Only high school graduates or the equivalent are admitted, and therefore commissioned salesmen do not participate in an entrance test administration.

Company position:

- *A total ban on the use of commissioned salesmen is an excessive measure.*
- *We strongly support prohibiting commissioned salesmen from administering admissions tests, and from making final decisions regarding admissions or financial aid.*
- *The use of door-to-door canvassers or independent contractors should be banned.*

Education Management Corporation
10/89

RESPONSE TO THE U. S. DEPARTMENT OF EDUCATION'S REQUEST FOR PUBLIC COMMENT ON THE REAUTHORIZATION OF THE HIGHER EDUCATION ACT OF 1965

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For additional information, contact:
Robert B. Knutson,
Chairman and Chief Executive Officer

November 20, 1989

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I. INTRODUCTION

The comments, recommendations, and discussion included in this response represent the collective perspectives of The Art Institutes of Atlanta, Dallas, Fort Lauderdale, Houston, Pittsburgh, Philadelphia, Seattle, and the Colorado Institute of Art. The eight Art Institutes are part of Education Management Corporation, and as a group share a common educational philosophy, and similar academic programs, policies and procedures.

We welcome this early opportunity to respond to important issues that will be discussed over the coming months as we prepare for Reauthorization. However, we are very concerned about the climate in which the Higher Education Act of 1965 is being reviewed, a climate of media attention and misinformation where the poor performance of certain proprietary institutions has jeopardized the participation of all students who attend privately-financed, tax-paying institutions.

We believe that the principal issue is not the proprietary "sector", but individual schools and a financial aid system that burdens low-income, academically at-risk students with debt.

We are prepared, through this testimony and on an ongoing basis, to:

- o Actively participate in the partnership of institutions, agencies, and the federal government that will refine the The Higher Education Act for the 1990s;
- o Suggest ways in which the Title IV student aid programs can be improved to better serve and protect students;
- o Commit our resources to helping the Congress and the U.S. Department of Education address the changing character of education in this country today.

A. Profile of The Art Institutes

On an annual basis, approximately 13,000 students attend The Art Institutes, enrolled primarily in associate degree programs, which are three academic years in length, and also in bachelor degree and one-year continuing education programs. Together, the Art Institutes are the country's largest single source of commercial artists, and are also major trainers of interior designers, photographers, and personnel for the retailing and music and video industries. We employ more than 1,600 faculty and staff dedicated to providing service to our student clients. Our faculty and staff share ownership in the company through an Employee Stock Ownership Plan. The eight Art Institutes have been in operation for an average of 32 years each, and have more than $90 million in capital committed to our facilities and equipment.

Students at the Art Institutes come from all 50 states and from 45 foreign countries. Forty per cent of our new students have a year or more of previous college-level experience at another institution. All applicants must be high school graduates or the equivalent in order to gain admission. More than half of all students initially become interested in The Art Institute programs through active high school relations programs.

Our students cover the entire spectrum from high income to low, but generally represent middle-income America. Some 70% apply for financial aid. Of these:

- Sixty percent of all aid applicants are dependent on their parents for support;
- The remaining 40% are adult, self-supporting students;
- The median family income of dependent aid applicants is in the $24,000 - $29,999 range;
- For independent aid applicants, the median income ranges from $5,000 - $6,999.

The Art Institutes participate in all of the Title IV programs, and in state grant programs in four of the six states where they are located.

- The typical student budget for an academic year, including tuition of approximately $6,600, fees, books, supplies, room, board, personal, and transportation expenses is $13,000.
- The typical financial aid recipient finances 60% of these total costs through his or her own family's resources, including part-time jobs.
- The remaining 40% of costs are financed through federal and state grant, loan, and work programs.

- Grants represent 22% of all aid dollars disbursed while loans represent 78% and federal work study less than 1%.

A Student Financial Services staff of seven to thirteen people at each of The Art Institutes support student participation in federal aid programs. A proactive Employment Assistance office, staffed by four to nine job counselors, assists both current students and graduates in locating suitable employment.

B. Overall Goals of the Reauthorization Process

Reauthorization presents a once-in-five year opportunity to review the effectiveness of the programs and the efficiency of the system. While many institutions in the past have been wedded to the status quo and the preservation of a montage of loan, grant and work-study programs, we believe that program effectiveness argues for *substantial change*. We share the view expressed by The College Board that 'Radical Reform' may be in order, while the basic principles of the existing programs are retained.

We do *not* include the elimination or special treatment of a particular sector in the need for substantial change. Private career schools provide more than 70% of the vocational education in the United States today. These privately-owned institutions operate without state or federal institutional support, pay sales, property, real estate, and income taxes, and are *market-driven* to meet the needs of students and their employers.

The proprietary vocational education sector has indeed grown more rapidly than traditional sectors of education in recent years. This cannot be attributed simply to advertising and promotion, since all sectors of higher education, some using public tax money, now use the full range of methods to attract the shrinking pool of 18-24 year-olds -- television, radio, billboards, four-color brochures, recruiters, and alumni.

We believe the primary reasons for this growth are the ability of the proprietary sector to anticipate the needs of the employment market, and to respond rapidly by developing new educational programs to meet these needs, at minimal cost to the taxpayer. Not all private tax-paying institutions are good. Some have followed questionable recruiting practices. Some have not delivered promised services to students. The great majority of privately owned institutions do provide *pertinent education* and *employable job skills* to their students. They produce future taxpayers who return society's investment in them many times over. This country was founded as a political and economic democracy. We have no choice but to *maintain freedom of choice for students in the education marketplace*.

Student aid has played a critical role in maintaining this freedom of choice and expanding postsecondary educational opportunities for low and middle income Americans who twenty years ago viewed high school graduation as completing their formal education. The demands of an *increasingly technological society* and America's elusive goal of *equal opportunity* require us to press on in our struggle to provide, "every child . . . as much education as he has the ability to take" (Lyndon B. Johnson, 1965).

As partners in the education community, we face two real challenges as we pursue our goals of ensuring minority access and eliminating financial barriers to low and middle income students:

- Rising costs of postsecondary education, and
- The increasing complexity of the forms, the application process and the delivery of aid to students.

Overarching every policy decision facing the President and the Congress in the upcoming Reauthorization is the question of the budget deficit and available resources to support the Title IV programs. The relative priority assigned to higher education -- even in a period when educators, the business community, and elected officials share the view that reform is necessary and more funds are essential -- seems almost unchanged. Battles between the various sectors of higher education only serve to exacerbate this situation.

Despite the overriding question of the budget deficit, we believe we must approach the question of reauthorizing the Title IV programs in terms of what is best for the nation and right for those students who need help in pursuing postsecondary education. Three principles of this system should be simplification, integration, and accountability.

Simplification:

- The delivery system must be simplified for students and their families, from the initial application through the delivery of aid dollars to the student;
- Reestablishing an appropriate balance of grants, loan and work in the student aid packaging process must be a national priority;
- Unnecessary, burdensome paperwork must be eliminated wherever possible. In the computer age, there are significant opportunities to streamline communication, and to gather and compare data.

Integration:

- Student Financial Aid programs should constitute an integrated system, where all of the parties involved -- students, parents, institutions, state agencies, lenders, and the federal government -- have efficient means of communication in place;
- Major improvements to the student loan programs are necessary, to consolidate them, so that students can and will repay their education loans;
- The financial aid community, including representatives of institutions, need analysis servicers, and others directly involved in the delivery of student aid, must be very closely involved as partners in any changes to the programs or the delivery system. These include, but are not limited to:

- Designing application forms which are easily usable by families;
- Previewing regulations before they are issued for general public comment;
- Pilot testing regulations, forms, and procedures before they are put into general use;
- Cross training of U.S. Department of Education and institutional staff, by means of team teaching, serving on task forces, working together.

Accountability:

- Institutions, lenders, and other agencies involved in Title IV student aid delivery must be held fully accountable for the administration of these programs.
- Those organizations that demonstrate a lesser ability to comply with the intent of the law should be subject to more specific restrictions, whereas those that have demonstrated a consistent ability to maintain standards should be subject to more basic rules. This is the original idea of "deregulation" discussed at USED some 8-10 years ago.
- The national student financial aid delivery system should be designed to help the student consumer make well-informed choices within all sectors of postsecondary education.
- Through involvement in the process of developing and integrating new forms, regulations, and training opportunities, all of the parties involved, including schools, lenders, guarantee agencies, the federal government -- ultimately increase their accountability.

C. Roles and Responsibilities

The traditional roles of the various parties involved in student financial aid have not changed in the twenty-five years since the Higher Education Act was first enacted. Through the Reauthorization process, these roles must be reaffirmed:

- o Parents bear the primary responsibility for meeting the costs of postsecondary education for their children, by providing family financial support throughout the years of undergraduate education;
- o Students (and their spouses) share in the family's primary responsibility for financing postsecondary education, by devoting their savings and earnings from work to their primary objective - education;
- o States bear some of the responsibility for assisting needy students to bridge the gap between educational costs and the family's available resources, and for monitoring and managing those programs directly controlled at the state level;
- o The federal government serves as the critical balance in the student aid process, by:
    - * providing funding for programs designed to provide both access and choice to needy students and families;
        - Access means providing for the gap between institutional costs and family and other resources so that the student has the means to enter any postsecondary institution.
        - Choice means providing the needy student with the support he/she needs to pursue postsecondary education at the particular institution that can best help the student meet his/her educational objectives.
    - * Managing and monitoring the programs it controls, and providing training to institutions and other agencies that support federal student aid programs.
- o Institutions bear the responsibility for pulling all of these various pieces together, and ultimately for delivering dollars to needy students.
    - * The institution serves as the student's main support, or advocate, in pursuing postsecondary education.
    - * The institution carries the major responsibility for accountability to the taxpayer, by providing educational programs that serve students, and by administering Title IV programs in the manner intended by law.

Today we also have a number of other parties involved in student aid programs -- need analysis agencies, servicers, lenders, guarantee agencies and others -- who share in the partnership of student aid delivery. In a restricted budget environment, all partners in the process need to emphasize training and prevention of abuse, in the true spirit of shared responsibility.

II. INSTITUTIONAL RECOMMENDATIONS

The following recommendations and discussion relate to standards and practices of educational institutions participating in the Title IV student aid programs. While our major concern is the impact of these programs on students, we believe that changes are necessary at the institutional level in order to ensure delivery of funds and services to enrolled students.

II. INSTITUTIONAL RECOMMENDATIONS

A. Institutional Eligibility and Participation

While the Secretary's Notice has questioned the continued participation in Title IV programs by students who attend proprietary vocational schools, we choose to address this question in terms of overall eligibility standards for participating institutions. We are dismayed at the apparent bias reflected in the questions raised, and wonder whether there is any rational basis, or some data available, which would motivate the U.S. Department of Education to consider eliminating students attending an entire sector of schools which have actively participated in Title IV programs for more than twenty years. We believe that one definition of eligible institution should apply to all participating schools, along with standards that apply to all. We do not believe that segregation of sectors serves any purpose whatsoever. If accountability is the real issue, we are prepared to make recommendations for strengthening institutional eligibility requirements.

Recommendation #1: Develop single, clear definitions of "eligible institution" and "eligible program," that reflect the common purposes of postsecondary education in this country today.

For many years the federal statute governing these programs has contained four definitions of eligible institution:--

- institution of higher education
- proprietary institution of higher education
- postsecondary vocational institution
- vocational school

These differences in definitions and requirements simply create confusion. For example:

- Why is the minimum academic program length at a vocational school 300 clock hours (or one quarter), but six months at all the others?

- Why is the institution of higher education not required to exist for two years prior to eligibility, when the others are?

- Why do "commissioned salesman" restrictions apply only to vocational schools?

- Why is ownership status a key characteristic used to categorize a particular institution?

- Why are proprietary institutions the only ones that must be accredited, and cannot rely like the others on the transfer-of-credit alternative or state approval?

A typical proprietary institution, for example, can meet both the definition of a "proprietary institution of higher education" (used for Pell and Campus-based programs) and the definition of "vocational school" (used for Part B loan programs). Students in six-month programs can receive any type of aid while students in three-month programs only receive Part B loans. What is the basis for these differing definitions of eligible program?

We suggest that what is needed is a general definition of postsecondary "eligible" institution, whose students are therefore eligible to receive Title IV aid. The overall purpose of the Title IV programs is to support needy students in their pursuit of a postsecondary education.

Postsecondary education has changed a great deal since the implementation of the Higher Education Act of 1965. Today, not only proprietary institutions, but traditional institutions as well, increasingly train young people and adults to enter or re-enter the work force. Many traditional public and private postsecondary institutions have created academic programs specifically designed to train students for jobs, and actively advertise those "career-oriented" programs. Training or educating students specifically for employment is no longer restricted to tax-paying institutions. However, the definitions in the law continue to isolate institutions with a "vocational" orientation.

Few business or government leaders would disagree that in order to be competitive in the international economy of today, America must have a trained work force. Simply, this means that postsecondary education must primarily prepare people for work.

Recommendation #2: **Strengthen the institutional eligibility and accountability requirements for all, and actively encourage the sharing of information by all parties involved in monitoring postsecondary institutions.**

With one definition in place, we need to create tightened eligibility standards that apply to all institutions, to include:

- Increased accountability on the part of institutions for the services and education that they provide, including required institutional disclosures (discussed below);
- Tightened accrediting standards for all institutions;
- Tightened approval standards for all accrediting agencies;
- Sharing of information and of all reports of site visits by the various parties involved in monitoring postsecondary institutions' performance, including:

- accrediting agencies,
- state licensing agencies,
- state VA authority,
- state and national guarantee agencies,
- the U.S. Department of Education.

It is common for the state licensing agency to review a school, but to be unaware that the Veterans Administration has recently visited the school and filed a written report. We believe that many students may have been saved the pain of school closings or other events, had the various oversight agencies been obliged to share information before the situation became a true crisis.

Recommendation #3: **Once new definitions and new accountability standards are designed, inaugurate a targeted, five-year program of institutional eligibility review, whereby each participating institution of higher education has its eligibility to participate in Title IV programs reviewed and certified.**

We also believe that institutional eligibility for participation in the Title IV programs must be thoroughly reviewed on a regular basis, to ensure that institutions continue to meet the established standards. Just as accreditation and state approval must be reaffirmed on a regular basis, so should institutional Title IV eligibility. The U.S. Department of Education must have the statutory authority, and the necessary funding, to effectively reevaluate institutional participation at the school location. It must also have access to all records related to the school's basis for eligibility from accrediting agencies and states.

Recommendation #4: **Eliminate correspondence schools and foreign schools from institutional eligibility for participation in the Title IV programs.**

Our recommendation that correspondence and foreign schools be eliminated from Title IV eligibility is based on the simple fact that there is very little if any opportunity for such schools to have direct contact with students. With tightened eligibility standards and regular eligibility reviews, we believe it would be difficult for such schools to meet these standards.

E. Student Consumer Information - Institutional Disclosures

Recommendation #1: Require all institutions to disclose to students program completion rates, state examination pass rates, and placement rates, under the student's general "right to know."

In order to increase accountability among all postsecondary institutions, we believe that the student consumer must be provided with sufficient information to make a good decision about his or her future. The Title IV student financial aid regulations have for a long time contained a laundry list of required items to be provided to current and prospective students.

As a result of these requirements, today we have a much better informed student population. While there will undoubtedly always be a certain "mystery" surrounding the student financial aid programs, we believe that students have benefited from this effort to provide them with better information. The Art Institutes have found through our Student Financial Planning process and through the implementation of default prevention activities, that improved information vastly improves the student's decision-making process and increases the involvement of the family in the educational process.

The recent addition of required disclosures of institution's completion rates, state examination pass rates, and placement rates has been handled separately in the regulations from previously-required institutional disclosures to students. Only certain institutions (non-baccaulaureate-degree-granting, offering programs designed to train students for employment) are required to make the disclosures. Furthermore, the disclosures are to be made not in the same manner as already-existing required disclosures, but specifically prior to the enrollment of the student, and proof of disclosure is required in the student's file.

We question first of all the factual and the legal bases for the sector distinction, requiring certain institutions to disclose this information, when in fact virtually all postsecondary education has become career- or employment-oriented. We particularly invite comparison between private career schools and the well-documented shortcomings of colleges and universities engaged in inter-collegiate athletics, whose student athletes not only do not graduate or get jobs, but attend college for four years and accumulate few credits toward a degree.

Recommendation #2: Include these disclosures in the same context and same form as already-existing student consumer information requirements.

All institutions should be held accountable for what happens to their students, and all students should be informed of completion and placement rates, just as they are of academic and financial aid programs available, facilities, faculty, accreditation status, financial aid application, award and distribution policies, and refund policies.

Under the recent Department of Education rules, student completion, pass, and placement rates must be disclosed separately to each individual student at the time of enrollment. By isolating these particular disclosures for student file documentation, does this suggest that they are more important than the disclosures already contained in the law, for general distribution to students?

We recommend that the new completion, pass, and placement rate disclosures should be handled exactly as are the myriad of other disclosures, by means of institutional publications, required of all participating institutions.

C. Admissions Standards - Ability to Benefit

Recommendation #1: Retain the "ability to benefit" admissions criterion as an important means for adult students to return to postsecondary education.

Although The Art Institutes admit only high school graduates or the equivalent, we believe the door of opportunity must be left open for those who possess academic potential, but who may not have had the chance to express or pursue it. Many prominent Americans have overcome artificial barriers and the lack of paper qualifications to achieve greatness.

Furthermore, the requirement that ATB students acquire the GED before the second year in school or program completion (whichever comes first) helps to ensure that when the student enters the work force, he or she will be equipped with the credentials needed in order to successfully pursue employment.

Recommendation #2: Limit the proportion of students that may be enrolled under the ATB criterion at a single institution to 20% - 30% of the institution's enrollment, with appropriate services required to support these students.

The ATB criterion was originally designed as an exception to the normal admissions criterion requiring a high school diploma or its equivalent. It was not intended to be the "rule" or the "norm" at eligible institutions. The lack of limitation on the proportion of "ATB" students we believe calls into question the institution's ability to continue to conform to the accepted definition of an eligible postsecondary institution. If an institution admits a majority of students based on the ability to benefit, and these students are required to complete the GED after one year or by the end of the program, is the institution truly offering postsecondary education? Or is it primarily offering GED preparation?

Recommendation #3: Permit students admitted under the ability to benefit criterion to receive Part B loans only after successful completion of one academic year or one-half of the program, whichever is less.

It must also be recognized that academically at-risk students who borrow to pay for the costs of a postsecondary education are prime candidates for loan default. ATB students, therefore, should have their access to loans restricted until they demonstrate academic persistence at the institution of their choice.

D. Institutional Administrative Capability

We believe that the quality of experience and training of each institution's personnel have a direct impact on its ability to properly administer Title IV programs. We also contend that with the greatly increased complexity of institutions' responsibilities, the qualifications of financial aid and other administrative personnel need to be strengthened to meet minimum standards.

While new regulations have been issued to strengthen new institutions' ability to administer the Title IV programs by adding a training requirement for the financial aid administrator and chief administrator, we don't believe this goes far enough. Department personnel cutbacks have occurred during a period of increased media attention to the shortcomings of some participating institutions. The U.S. Department of Education holds statutory authority to train financial aid administrators and others; this service must be available to all participating institutions.

Recommendation #1: Require a specific minimum number of qualified administrative personnel at institutions participating in Title IV programs.

Along with its training authority, the Department must be authorized to establish minimum personnel requirements and standards. Records of successfully participating institutions exist today to serve as models for these standards. The professional financial aid associations would willingly help in this endeavor to maintain the professional standards of what is today truly a profession, rather than an occupation. All partners in the student financial aid process have much to gain by working together to establish such standards.

Recommendation #2: Impose more rigid requirements on institutions which have demonstrated problems.

Based on the outcome of institutional reviews, the Department of Education needs to have the authority to require institutions with, for example, high defaults rates to add qualified personnel and/or to make other substantive administrative changes. Such requirements are key if we truly want to improve services to students.

Recommendation #3: Implement financial aid administrator "certification" as a means to strengthen institutions' administrative capability.

The analogy to the Certified Public Accountant is appropriate in this context. The need for the CPA to retain his or her license creates a very strong motivation for integrity and the application of standard principles. The risk of losing certification represents a potential loss of a career.

Financial aid administrators in many ways fulfill a similar role in educational institutions, through their responsibility for the administration of, in many cases, millions of dollars in federal student aid. Yet, there are today many institutions who do not devote sufficient resources to the person(s) in this position, or do not share in the understanding and acceptance of the need for a fully qualified individual to carry out these duties.

Some years ago, the issue of financial aid administrator "certification" was examined by NASFAA and a number of the regional and state professional organizations, and was then dropped, out of fear for the legal ramifications. We believe that the time has arrived to revive this question, and for the U.S. Department of Education to become involved in the development of financial aid administrator certification standards.

III. STUDENT AID DELIVERY SYSTEM RECOMMENDATIONS

The problems of aid packaging and delivery have existed for as long as the Title IV student assistance programs. The complex system of aid delivery still frustrates many who are eligible for and deserve Title IV assistance.

Recommending aid delivery improvements is one of the seven important statutory functions of the Advisory Committee on Student Financial Assistance. We will leave the full articulation of possible technical modifications in the Congressional Methodology to the Committee. We do however, suggest that any modifications considered by the Department should keep these basic tenets of the current system in mind:

- Simplicity
    - a basic form (6-10 data elements) for those whose family income does not exceed $20,000 and who have virtually no family contribution;
    - standard automatic independent student definitions;
    - simplified verification of applicant data.
- Integration
    - of the existing Congressional Methodology and the Pell Grant eligibility determinations.
- Decentralization
    - of application processing from the central processor to the MDE "need analysis" agencies.
- Equity
    - in the allocation of limited resources, as the system seeks to treat low, middle, and upper income students fairly in the application and awards processes.

The recommendations that follow are designed to address each of these principles.

A. Application Forms

Recommendation #1: Develop a common "short" form and a common "long" form for use by new students applying for aid.

The development of a common, simplified form for use by all students in applying for aid is supported by current law as well as by the Advisory Committee and NASFAA. In the past few years, as dollars must be stretched further, the forms have become increasingly complex. Some of this complexity is a result of the fragmentation of the need analysis delivery system, whereby four or five agencies operate somewhat independently to create a form that best meets the needs of the particular institutions that the agency serves.

A large part of this complexity is linked to the fact that one form is often used for a variety of categories of tax filers -- 1040EZ, 1040A, 1040 and non-tax filers. Thus a "short form" tax filer, like a non-tax filer, finds himself or herself filing a "long" financial aid application form.

The common form thus needs to be created to allow varying categories of applicants to complete the application according to their tax filing status. Some data elements on current forms would only be used by "long-form" 1040 filers. While we understand the mandate from Congress to create a form that clearly identifies which data elements are needed to determine the student's "federal" aid eligibility, this distinction between federal and non-federal is much less critical to the applicant than the logic and ease with which the application is completed.

Recommendation #2: Implement a significantly shorter application form for continuing students.

Once the student has initially applied for aid, we believe that renewal applications can be shortened and simplified, to reflect only significant changes since the last application. The process as it exists today can be enormously cumbersome, and frequently yields only minor changes in the student's eligibility.

Both institutions that directly serve students and need analysis servicers who have been involved in this process for many years are in the best possible position to make recommendations on the form that students and their families will use. Financial aid administrators and other application processing experts must be involved in a partnership approach to improving the system for continuing student applicants.

Recommendation #3: Implement institution/federal government cost sharing to replace the fees currently paid by students.

The question of student fees for application processing needs to be resolved through a cooperative effort between the U.S. Department of Education and the need analysis servicers who currently charge a fee. While we agree that the fee needs to be eliminated, we also believe that institutions and the federal government must be prepared to bear those costs.

B. Independent Student Definition

Recommendation #1: Retain the four current "automatic" independent student categories (Veteran, over 24, orphan or ward of the court, has dependents other than spouse).

The change in the independent student definition made in 1986 in many ways successfully simplified the process of determining self-supporting status, by creating four "automatic" categories of independent students. While the change in definition was expected by many to reduce the number of independent students, in fact the opposite occurred. We believe that the increase in independent students results not from the change in definition, but rather from the increase in adults pursuing postsecondary education. The Art Institutes, with no change in recruitment methods and no special marketing to part-time adult students, have experienced a 12% increase in the proportion of independent students from the 1985-86 award year to the 1988-89 award year.

Recommendation #2: Consider all other students for independent status based on professional judgment.

The change in definition whereby students under 24 who can demonstrate self-support are considered independent is problematic and difficult to administer. Financial aid administrators already have the authority to consider a student independent based on their professional judgment. Students in this category should be considered for independent student status through the same process.

C. Verification

Recommendation #1: Limit verification to data elements on the tax return.

The implementation of verification of student application data is the primary mechanism whereby award error can be and has been reduced. Over the years since "validation" (the predecessor to verification) was first introduced, the required number of data elements has gradually been reduced. Today the family's tax return represents the critical item that must be obtained in order to complete the verification process.

Indeed, we believe that verification should in fact be limited to only those elements that are found on a tax return. It makes no sense to ask a family that is and has always been supported by public assistance to restate this fact again on another form.

Recommendation #2: Authorize exchange of information between the central federal aid processor, the need analysis processors, and the IRS, to facilitate verification of data.

Tax return data is the most critical for the verification process. This data can be the most difficult to obtain. Through the central federal student aid processor, we are able to access Social Security, Selective Service, and INS data, but nothing from the Internal Revenue Service. Access to tax filing data is critical to the entire student aid delivery process.

While implementation may be far in the future, we believe that the Department of Education should have the authority to provide access to applicant tax filing data through the central federal processor. Such an interface with the IRS could be used to confirm the tax filing status of the parent/student, or, at the request of the financial aid administrator and the family, to obtain a copy of the tax return, or compare data by electronic means. In the State of Ohio, for example, all applicants for a state grant sign a release, so that the Ohio Board of Regents can obtain directly a tax return for selected students.

At the institution's request, such comparisons of application/tax form data could be performed by the application (need analysis) processor, as a special service. Data could be obtained through accessing the central processor (acting as a National Student Aid Data Bank), and then processed through the servicer.

We believe that institutions would gladly bear some of the costs of accessing IRS data, because their own administrative burden would be substantially reduced.

D. Need Analysis

Recommendation #1: Combine statutory need analysis methodologies for Pell Grant and the other programs into one method, the results of which are used differently to derive award amounts for the various Title IV programs.

Despite the appropriate and timely addition of need analysis methodology to the statute in 1986, today we still have two methodologies:

- The Pell Grant formula, which produces a "Pell Grant Index"; and
- The Congressional Methodology formula, which produces a "Family Contribution" used for awarding Campus-Based funds and Stafford loans.

The two methodologies are similar, but the results are used differently. There is no longer a strong justification for two calculation methods. With the goal of simplicity in mind, we therefore believe the time has come to consolidate into one Congressional Methodology, with one result, which is applied to the various programs in different ways, to determine actual award amounts.

Recommendation #2: Reduce the formulae to "simple" and "regular."

Within each of these methodologies, today there are four unique calculation formulae:

- Regular,
- Simple,
- Dislocated worker,
- Displaced homemaker.

Federally-approved need analysis systems today must determine which formulae of the four fit each applicant's particular circumstances. Both the dislocated worker and the displaced homemaker formulae are seldom used, and should be treated as "special circumstances" for the Pell Grant program, and as "professional judgment" cases for the other programs.

In the interests of simplification for the aid applicant, the "simple" formula needs to be retained and expanded in its use, to apply to all families with incomes under $20,000. The use of the simple formula for non-tax filers and lower income tax filers should result from use of the "simple" application form.

Recommendation #3: Revise treatment of dependent student earnings in the formula to remove inequity.

The current statutory need analysis formula contains one inequity, in its treatment of dependent students' base year earnings. In effect, the results of the student's previous employment are counted twice in arriving at the family's total expected family contribution; first as a part of the student's savings, and second as part of the family's base year income. For example:

- If a student worked in 1987, and saved his entire earnings of $3,000, then 35% of his savings or $1,050, plus 70% of his earnings or $2,100 would be included in his family's contribution. The result is $150 more than his gross earnings, and substantially more than his net earnings.

While a proposal to reduce the percentage of wages included in the family contribution to 50% has been introduced, we suggest that the treatment of dependent student earnings be returned to the "Uniform Methodology" technique.

Under this alternative calculation, only the 35% of savings is included in the family contribution. The dependent student's wages while in school (not the base year) are considered a resource to meet the student's need. This solution recreates the incentive for family's to save for postsecondary education, and for students to work while they are in school.

E. Role of the "MDE" and Central Processors

Recommendation #1: Authorize the current MDE need analysis processors to be full service processors.

Today, we need a student-centered delivery system, which addresses not only the form the student completes and the fee that he/she does or does not pay, but also the student's basic understanding of the process whereby funds are delivered on a timely (or, for good reason, on an untimely) basis. Major obstacles remain in streamlining the delivery system so that it ensures timely delivery to students in need of help to pursue postsecondary education.

To support this need for student understanding of the process, the role of the need analysis processor (currently CSS, ACT, USAF, CSI, and PHEAA) needs to be expanded. Under this decentralized processing mode, the need analysis servicer would:

- Completely process the student's application,
- Transmit data to the National Student Aid Data Bank (formerly Central Processor) for data comparisons,
- Generate a Student Aid Report,
- Process corrections,
- Communicate all of these processing results with the institution under Electronic Data Exchange (EDE),
- Communicate electronically with various guarantee agencies to transmit application data, at the student's request.

Eventually, we believe that payment processing and reporting would be better handled by the decentralized servicers, so that application and award processing are combined into a unified process.

Recommendation #2: Eliminate the central processor as such.

The central processor should, under the new decentralized processing mode, be invisible to the student, and virtually invisible to the institution. The role of the central processor should be limited to comparisons of data received from the need analysis processors, with data from Social Security, the INS, Selective Service, and (eventually) the IRS.

Recommendation #3: Create in its place a central student aid data bank for repository and exchange of data.

The central processor should eventually serve as the National Student Aid (rather than "Loan") Bank, essentially a repository of information rather than a processor. The need analysis processors' role then needs to be expanded to a full service processor.

Recommendation #4: Identify a new name for the MDE agencies.

As an initial step in this decentralized processing transition, a new name needs to be identified for the "MDE" agencies. "MDE" or "Multiple Data Entry" is simply a throwback to the change made several years ago whereby the approved need analysis agencies rather than the central federal processor handled the actual "data entry" of aid applications processed through those agencies. This terminology is not meaningful to students who have direct contact with the agency or processor. Let us suggest for the moment "student financial aid processor" as an alternative.

While some progress has been made in recent years to improve the delivery system, the major impact of electronic processing, for example, has been on institutions rather than students. The establishment now of a revised definition of the role of the servicer would encourage the process of decentralized services to serve students' needs best.

IV. STUDENT AID PROGRAM RECOMMENDATIONS

Federal student aid programs were originally created to bridge the gap between the student's educational costs and the family's financial resources. First and foremost, we urge retention of the need basis of the Pell Grant, Campus-Based Supplemental Educational Opportunity Grant (SEOG), and other federal programs. Merit, except for the present "satisfactory academic progress" requirement, should not be the basis of any federally-supported Title IV award.

Special purpose programs, such as the Paul Douglas Talented Teacher Scholarships and the Robert C. Byrd Merit Scholarships, present ample opportunities for targeted merit-oriented student aid. Academic scholarships are not in short supply, and limited federal resources should not be diverted from the needy who have the potential to succeed in college.

Our recommendations for the various student aid programs which follow are based on this premise: that the intent of federal financial aid is to help fill the gap between the student's financial resources and the cost of attendance, regardless of the academic history or institutional choice of the student.

A. Aid Packaging

Recommendation #1: Develop and implement multi-year packaging as a means to encourage student commitment to complete the program.

Under the current federal aid application processing system, institutions can make only fairly short-term financial commitments to students and families. Yet, we ask the family to begin planning for postsecondary expenses far in advance of entering an institution.

While we know that the federal student aid programs are controlled by the political process, and therefore subject to change, these programs on the whole have not radically changed in twenty years. The regulations are more complex, but the neediest students continue to receive Pell Grants and SEOGs, while middle income students generally depend more heavily on loans.

Like the aid programs, family incomes do not change radically from year to year. Just as the institution could make a general multi-year commitment to the student for financial help, so could the family make a long-term commitment for its contribution -- subject to change as a result of altered family circumstances.

As a means for access to postsecondary education, federal student aid programs should support the students' continued access. Students do not enter school planning to drop out, but the financial aid delivery process almost encourages it, by forcing students and families to make their way through this complex process at a minimum once a year.

We believe that students would be strongly encouraged to stay in school if they have even a general idea of how they will finance the entire program.

Under this approach, in general terms:

- The initial year family contribution would be assumed to remain the same over all academic years in the student's program, except for statutory increases in the student's minimum contribution;
- Institutional costs would be projected, based on historically typical increases over the past five years;
- Standard packaging parameters based on income (discussed below) would be used to determine the student's initial year eligibility;
- The aid package would be projected based on the student's initial year aid package "category," again using standard parameters for second, third, and fourth year students in that packaging "category."

As a result, the student could have a reasonable expectation of what he/she needs to save or earn, how much will be grant aid, and how much he/she will need to borrow to complete the program.

Recommendation #2: Create standard packaging "parameters" in conjunction with grant/loan standards and decentralized Pell processing (below).

While we do not propose that packaging formulae be rigidly standard for all institutions, we believe that standard packaging "parameters" should be established. These parameters would provide a framework of support based on the appropriate grant/loan (work) mix and the decentralized campus awarding of Pell Grants, discussed below.

Recommendation #3: Require institutions to account for all resources needed by the student to meet his or her need.

While institutions are currently required to disclose all direct and indirect educational expenses to students, many institutions are forced in the packaging process to leave a gap of unmet need because of the shortfall of funds. Often, this unmet need represents students' living expenses that are not paid to the institution. In effect, in order to stay in school, the student is forced to increase his family contribution, whether the student knows it or not.

Some institutions, including The Art Institutes, systematically ensure that students understand what resources will be needed to meet all of the expenses in the student's budget. This may mean that the actual student contribution must be higher than the Congressional Methodology results, and must be met through the student's wages from part-time jobs and/or additional family support.

If the manner in which the student's need will be met is not demonstrated to the student, we suspect that the institution is creating a dropout. The "unmet need" factor is clearly a potential bombshell. However, we believe that all institutions must address this issue with students as part of the award packaging process.

B. Grant Aid vs. Debt Burden

Recommendation:

- **Develop an appropriate standard grant/loan "mix" based on income, year in school, and institutional costs, up to a fixed dollar maximum of federal aid.**

One of the most disturbing trends in the way parents and students finance postsecondary education has been the major shift in the overall proportions of student aid awarded in the form of grants and loans.

- From 1970-71 to 1975-76, grant aid increased from 66% to 80% of the total aid awarded.
- Since then, grant aid has declined overall to 47% in 1986-87, while loans constitute about 49% of the total. The balance is work study.
- At The Art Institutes, grants constitute only 22% of total student aid financing.

This dramatic shift in the forms of aid provided has severe implications for both student loan defaults and access of minority and other needy students to higher education.

Minority access to higher education has experienced a decline since 1975. The 1987 Status Report on Minorities in Higher Education called the decline in the participation of black Americans and Hispanic-Americans in postsecondary education a "crisis of substantial dimensions," because while there is a significant increase in the number of minorities graduating from high school, there is a corresponding decrease in the percentage of minorities electing college enrollment.

The decline in minority enrollments parallels the shift from grants to loans. Although a direct connection may not be easily established, the relationship appears obvious. Pell Grant assistance is concentrated on low-income students, with approximately 80% of all recipients coming from families with incomes below $15,000 per year. Since black and Hispanic minorities tend to be concentrated in lower socioeconomic categories, any reduction in grant aid - in real or dollar value terms - would adversely affect minorities most.

According to the most recent data available from UCLA's Higher Education Research Institute, College Costs and Student Aid, only 16.9% of first-time, full-time freshmen received Pell Grants in the fall of 1986, compared to 31.5% in 1980. That represents a decline of 267,000 Pell Grant recipients. While some would argue that Pell Grants are now utilized by more students obtaining vocational job skills at private career schools, thus accounting for the decline, that misses the real point. Access to higher education for low-income students, especially minorities, is primarily a function of ability to pay. Offering a low-income student the opportunity to acquire $10,000 in debt over 4 or 5 years is no real offer at all. Yet, from the federal government's standpoint, loans are viewed as a more cost effective way to finance students.

Today, low income students increasingly depend on student loans for financing education, whereas ten years ago, most would have been unable to find a lender to make the loan or would not have needed it in the first place, because Pell Grants (BEOG) then represented a higher proportion of the true cost of attendance. We must ask ourselves whether the money now spent annually for loan defaults would be better spent in the Pell Grant program.

Grants have proven to encourage retention of students, whereas loans are ~~a~~ deterrent to the student completing his or her educational program. In a recent report, the Pennsylvania Higher Education Assistance Agency reported on the success of the state student grant program, which provides for a maximum $2,100 grant. The funding has increased 33% in the past three years. Now, for example, 50% of applicants from families with incomes in the $36,000-$42,000 range, qualify for the program.

The study shows that:

- Needy students who receive grants are just as likely as the less needy to remain in school;
- One year after graduation, more than 80% of grant recipients were employed, and their unemployment rate is half the rate of Pennsylvania's total labor force;
- More than 60% of student recipients from the lowest income families earn more in their first year of employment than their parents did in the students' last year as grant recipients.

We believe that the time is here to face the growing problem of grant/loan imbalance, and to establish the appropriate grant/loan balance as a national priority.

The mix of grants and loans, and the student's earnings from part-time employment, should be based on two essential factors:

- The student's family income; and
- The student's year in school.

Lower income students should receive higher grants, just as higher income students should receive a significantly greater proportion of loans in their packages. The same holds true for year in school.

As a concrete example of this approach, we are enclosing a model "Source of Aid" grid, originally developed by the Association of Independent Colleges and Schools. We believe that this model accurately reflects the concepts we propose, over a four-year academic program.

Thus the proportion of Pell Grant vs. other types of aid would be mandated based on income, year in school, and educational costs, and would be stated in ranges, up to a maximum of federal aid. In a sense, packaging would be mandated, to the extent that the appropriate grant/loan mix would be a part of federal statute. Tied to this would be changes in the various aid programs, discussed below.

Required packaging parameters based on income and year in school we believe must be thoroughly examined during the Reauthorization process.

This concept we know faces strong objections from the traditional four-year colleges and universities, who already believe -- mistakenly in our opinion -- that short-term programs should not have access to greater grant financing. If one of our overall goals is to help students complete the program, then the laws governing the programs need to fully support this objective.

SOURCE OF AID

First Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
0-10	$6,000	$4,800	$1,200	0	
10-12	6,000	4,000	1,200	600	
12-14	6,000	3,200	1,200	1.200	
14-16	6,000	2,400	1,200	2,400	
16-18	6,000	1,600	600	3,000	
18-20	6,000	800	600	4,000	600
20-22	6,000	400	0	4,800	800+
22-24	6,000	200	0	4,800	1,000+

NOTE: For each subsequent academic year, the schedule will shift down one level for each income category.

SOURCE OF AID

Second Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
	~~$6,000~~	~~$4,800~~	~~$1,200~~	~~0~~	
0-10	6,000	4,000	1,200	800	
10-12	6,000	3,200	1,200	1.200	
12-14	6,000	2,400	1,200	2,400	
14-16	6,000	1,600	600	3,000	
16-18	6,000	800	600	4,000	600
18-20	6,000	400	0	4,800	800+
20-22	6,000	200	0	4,800	1,000+

SOURCE OF AID

Third Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
	~~$6,000~~	~~$4,800~~	~~$1,200~~	~~0~~	
	~~6,000~~	~~4,000~~	~~1,200~~	~~000~~	
0-10	6,000	2,400	1,200	2,400	
10-12	6,000	1,600	600	3,000	
12-14	6,000	800	600	4,000	600
14-16	6,000	400	0	4,800	800+
16-18	6,000	200	0	4,800	1,000+

SOURCE OF AID

Fourth Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
	~~$6,000~~	~~$4,800~~	~~$1,200~~	~~0~~	
	~~6,000~~	~~4,000~~	~~1,200~~	~~000~~	
	~~6,00~~	~~3,200~~	~~1,200~~	~~1,200~~	
0-10	6,000	2,400	1,200	2,400	
10-12	6,000	1,600	600	3,000	
12-14	6,000	800	600	4,000	600
14-16	6,000	400	0	4,800	800+
16-18	6,000	200	0	4,800	1,000+

C. Pell Grant Program

- **Make Pell Grant a true "entitlement" program, with**
  - **multi-year commitments of awards made within federal packaging parameters, and**
  - **administered by the institution.**

The Pell Grant program, originally designed to be the floor of financial aid, the foundation of the federal student aid programs, has been turned on its head. Subject to the vagaries of the Congressional appropriations/budget processes and the whims of the Department of Education/OMB estimators, the total Pell Grant appropriation and award amount is often uncertain or unpredictable to students, institutions, or even the Department of Education. It may be the last rather than the first element in federal student aid packaging.

Certainty and predictability play large roles in affecting the enrollment decisions of the students the program is intended to serve, yet the Congress and Executive Branch refuse to take the logical step toward access and equity. The reason quite clearly is perceived cost.

Creating a true Pell Grant entitlement, at least in the first two years of study, would have predictable impacts on:

- Increasing minority access,
- Reducing financial barriers for low and middle income students,
- Improving student persistence,
- Reducing student loan default costs,
- Improving the tax rolls of the nation by having more employed citizens.

The cost of gross defaults is currently $1.9 billion. It is estimated that the cost of making the Pell Grant program a true entitlement is $1 billion annually. Could we not assume, with mandated packaging guidelines, that borrowing by lower income students will be reduced by an amount equal to the amount of new grant funds?

Just as we believe that students need long term commitments, beyond a semester or year, we also believe that the essential ranges of the Pell Grant package should be known in advance. In a decentralized processing system such as we have described, the Pell Grant award should be made by the financial aid administrator within federal awarding and packaging parameters, rather than by a central computer processor. Since the early days of BEOG when the institution merely served as the agent for delivery of funds to the student, institutions have substantially increased their administrative responsibility for this program. The original distinction between the "entitlement" Pell program and the Campus-Based programs no longer makes sense.

Decentralized control at the campus level, within established federal parameters, would serve students best.

D. Supplemental Educational Opportunity Grant (SEOG) Program

Recommendation #1: Retain the SEOG program as a critical resource to the neediest students;

With its $4,000 maximum award, the SEOG program represents the only real possibility for students to attend an institution with costs ranging from $2,000 - $8,000, without acquiring excessive debt. The 1986 amendments refocused SEOG awards on students with "exceptional need" or who were Pell Grant recipients. This change is in keeping with our recommendation that federal packaging parameters establish an appropriate grant/loan mix based primarily on family income. This program should therefore remain essentially unchanged.

Recommendation #2: Eliminate federal SSIG funding, and use these appropriations to fund SEOG awards.

We recommend elimination of the authorization of funding for the SSIG program and urge that the amounts appropriated be utilized to fund SEOG awards to needy students. The SSIG program has achieved its statutory objective. Most states now have viable, need-based state aid programs and appear capable of administering them without further federal support.

E. Perkins Loan Program

Recommendation:

- o **Convert Perkins into an institutional loan program, with**
  - * **no new federal contributions, and**
  - * **up to 25% of Perkins loans on an income-contingent repayment basis.**

These low interest (5%) loans, administered from the campus, have served a unique role, but have long since been eclipsed in their importance by the Stafford Loan program. Many institutions have had great difficulty performing their bank-oriented loan counselling and collection functions.

High student loan default rates in the old National Direct Student Loan (NDSL) program were a prediction of the present loan default rates in the Stafford Loan program, among the same types of institutions which enroll large numbers of low-income students. We recommend turning the administration of this campus-based program over to the institution, ceasing additional capital contributions, and authorizing institutions to make up to 25% of their loans on an income contingent repayment basis.

F. College Work Study Program (CWSP)

Recommendation:

- **Expand CWSP on-campus employment at proprietary institutions.**

Various studies of student persistence in postsecondary education demonstrate that students who work tend to remain in school longer, and therefore tend to graduate more often. The College Work Study program has been an important resource for students who wish to work while they are in school.

Retention experts also tell us that students who are more fully integrated into the activities of the institution tend to persist longer. This integration probably extends to on-campus employment. Some 80% of Art Institute students work while attending classes, but the great majority of them work off campus. We believe that the restrictions for on-campus CWS employment at proprietary institutions need to be further relaxed, so that this can truly be a viable program at those proprietary institutions that choose to participate.

We do not question the prohibition against involvement of CWS participants in the schools' recruitment activities. However, beyond that restriction proprietary institutions under current regulations must employ CWS workers only in providing direct services to students. Under the strictest interpretation of this rule, a public university can employ CWS students to help professors compile research, whereas an Art Institute student cannot assist an instructor in any way, because this is a service to the educational program and not to students. This restriction to providing student services is discriminatory and should be eliminated.

G. Student Loan Defaults

Recommendation #1: Tie any default rate "trigger" to the population served.

Today, for the first time in the history of federally-insured loans, institutions are held accountable for student loan defaults, while they essentially have little or no say in whether or not a student receives a loan or the amount of the loan. Essentially, the school's certification of a Part B loan application is a formula calculation:

Costs

(Less aid)

(Less family contribution) for Stafford

Equals the loan amount, assuming the student has not previously defaulted or borrowed the maximum.

Students today more often than not request the maximum loan "entitlement."

Furthermore, Stafford loans as a result of the Higher Education amendments of 1986, are mandated by regulation to be awarded to students based on need. They are not based on credit worthiness, co-signers, collateral, cash flow from a known job, as with virtually every other loan made by lending institutions in our society.

Student loan defaults, on the other hand, appear from all available data to be most closely related to the income or educational level of the student borrower and to failure to complete the course of study. Thus, those institutions which enroll significant numbers of low income students who have not completed high school or received an inferior high school education tend to have higher default rates.

These institutions, historically black colleges and universities, urban four-year public and community colleges, and private career schools, share a common bond. They took seriously the federal government's commitment to "access," "choice," and equal opportunity in higher education. That now appears to have been a questionable assumption for schools serving under-prepared and ability-to-benefit students. In effect, if institutions enroll too many academically "at-risk" students who fail to complete their course of study and then default, the institution must bear the wrath of high default rates, for doing what the Congress mandated in the first place.

While The Art Institutes do not primarily serve a minority, disadvantaged population, we nonetheless believe that student aid policy, in the form of default reduction regulations, has been made based on insufficient information. Since 1980, a number of studies have been conducted, most notably by various state guarantee agencies, which link borrower characteristics specifically to defaults. The California study of community colleges and proprietary schools published in 1987 (Wilms, Moore, and Bolus) finds that family income is significantly related to default rate. Our internal studies support these conclusions.

Recently, one of The Art Institutes conducted an extensive research project to determine the causes of default. The results of this study concluded without question that there is a direct relationship between the student's family income and loan default. Also, the default rate at the Art Institute under study was higher than the other schools, but its overall family incomes were lower. Yet the academic programs, admissions standards, recruitment methods, and administrative policies and procedures at all of The Art Institutes are essentially the same. At the very least, any default rate trigger used to judge institutions must be based in part on the population served, as reflected on the institution's FISAP report.

No matter how default rates are calculated, we believe that they present a misleading picture of the problem and lead to no real solution.

- Private career schools, community colleges and historically black colleges and universities have served as the real outreach mechanisms for implementing the federal policy of "access" and "choice" and equal opportunity in higher education.
- Yet many are low cost schools, and despite high default rates, have lower dollar amounts in default.
- Large universities with thousands of student borrowers and higher costs, in effect, hide high dollar volumes in default. For example, in the GAO's July 1989 study of student loan defaults Guaranteed Student Loans -- Analysis of Student Default Rates at 7,800 Postsecondary Schools:

    1. Bluefield College in Virginia had a borrower default rate of 3.1% representing $1,250 dollars in default,

       While Bowling Green State University in Ohio showed a 5.04% default rate with $448,009 in default.

    2. ITT Technical Institute in Dayton, Ohio had a 5.04% default rate with $66,777 in default,

       But the University of Pennsylvania has a 5.95% default rate with $1,178,964 dollars in default.

By counting numbers rather than dollars in default, the calculation method itself masks the problem.

Recommendation #2: Require schools above a certain default rate or dollar volume of loans in default to employ a full-time loan coordinator.

Schools with a high proportion of low income students and those with a high dollar volume in default do share, however, in the need for enhanced services to student loan borrowers beyond those required under current statute and regulations.

We believe that all institutions above a certain default rate (e.g., 20%), as well as those with the greatest dollar volume in default should be required to employ a full-time, trained and knowledgeable loan default coordinator to properly counsel student borrowers. This individual would serve as the student's helper, teacher, and advocate in the student loan process.

Recommendation #3: Require schools that primarily serve disadvantaged students to provide extensive student support services.

Institutions that serve primarily disadvantaged students must be prepared to provide extensive student support services, including student counseling, assistance with part-time jobs, and other services targeted to the population served. This may be viewed as "tougher" standards for high default schools, and yet it only makes sense for an institution that primarily serves disadvantaged students.

Recommendation #4: Authorize schools to have a greater say in the lenders and guarantee agencies that students use, and in loan amounts approved.

We believe that lenders and guarantee agencies should be held accountable, as are schools, for their default rates. Today lender and guarantee agency default rates are not generally available, so institutions are unable to properly advise students.

- The quality of loan processing and servicing we have found can have a substantial impact on the institution's default rate.
- Data from the recent study conducted by The Art Institutes discussed above confirms the very strong relationship between the lender or guarantee agency used, and the student's propensity to default.
- Since many guarantee agencies also serve as loan servicers, we strongly suspect that high default rates in part stem from inadequate loan servicing. In fact, many students have contacted us in frustration when they are not billed, or are billed for the incorrect amount, or don't understand why they are being billed by an organization unknown to them.

If institutions were in a position to use lender/guarantor default rates to advise students, competitive market forces would truly be made to work. Of course, schools also need to be freely encouraged to provide good information to the student consumer when he/she first applies for the loan. Under current regulations, institutions are not permitted to decline to process a loan through a particular lender selected by the student, even though the institution may know from previous experience that the servicing will be poorly handled. Many institutions believe, out of fear of encouraging students to borrow, that they are not even permitted to recommend lenders if the student has not already selected one. We believe that just as students should be able to make informed choices among institutions, so should they be able to make similar choices of lender and guarantor.

Students also need good advice about how much to borrow. Yet most simply request the maximum Stafford and/or SLS, primarily because they often have insufficient alternatives to borrowing. We believe that institutions should be given a greater say in the level of maximum loan approval, as a default prevention mechanism. However, ultimately the major default prevention mechanism is to reduce borrowing by at-risk students through a major restructuring of the student aid programs.

B. Student Loan Restructuring

Recommendation #1:

- **Create one student loan program, with a subsidized Stafford portion based on family income, and an unsubsidized convenience portion which could be fully consolidated.**
  - **Increase total maximum loan amounts according to the student's year in school or program length.**
  - **Prorate loan maximums downward for portions of an academic year.**

The Part B student loan programs have become an enormously complex group of programs that, despite their original creation as loans of convenience for middle income families, are now a primary source of aid to low income students. Perceived as a more cost effective financing method than grants, loans have mushroomed, and with this increase have brought the inevitable problems of skyrocketing default costs. Reliance on loans as the basic form of federal student aid, with almost $11 billion in loans made each academic year, dictates a certain portion of default, given the target population production, lack of determination of credit worthiness, the absence of collateral from potential borrowers, and the present "needs testing" of all borrowers.

From the standpoint of the school, the student loan programs are overly complex and virtually impossible to explain to the student. Simplification of the loan programs should be achieved by reducing them to one student and one parent loan. The student loan should be a combination of the current Stafford and SLS, with the student's eligibility for the Stafford portion, and the federal interest subsidy, based on family income. The student should also be considered for an unsubsidized loan (currently SLS), which would be fully consolidated with the subsidized loan at any level of borrowing. The maximum combined student loan should vary with program length and year in school, and should be prorated for portions of an academic year.

Recommendation #2: Implement multi-year student line of credit.

In order to simplify the process for students, one student loan application should be used for both "parts" of the student loan. Under the multi-year packaging concept previously introduced, the student should be able to apply for a line of credit to be established based on the initial year loan application. Institutions would then have complete authority to approve the amount of both subsidized and unsubsidized portions of the student loan, based on standard packaging parameters and on the institution's evaluation of the true availability of the expected family contribution.

The unsubsidized portion of the Stafford loan would be considered a "convenience" loan in the sense that it provides cash flow at the beginning of the term, rather than throughout the term as it is earned by the student.

I. PLUS Program

Recommendation:

- **Retain PLUS as a parent "convenience" loan.**

Under the concept of one student loan, and one parent loan, the PLUS program must be retained. The PLUS loan was created as a loan of convenience for parents whose family contribution is not immediately available, much like the GSL program was in its original form some years ago. We believe that this is an important source of financing for many students, and should be retained without substantial change.

J. SLS Program

Recommendation:

- **Replace SLS with an unsubsidized Stafford loan.**

The SLS program became necessary when the Stafford loan became need-based in 1986. It has served many adult and working students as the only form of assistance available. It has, however, been misused as a virtually automatic family contribution replacement. Many borrowers are unaware of consolidation, or are unable to consolidate because their total loan balance is below the statutory minimum of $5,000. We therefore believe that students would best be served by the replacement of the SLS with a fully-consolidated unsubsidized Stafford loan.

K. Income Contingent Loan Program

Recommendation:

- **Eliminate income contingent loans as an alternative under the Part B programs (except at the institution's discretion, as part of the new campus-operated Perkins Loan program); because of the student's enormous repayment obligation.**

The concept of an income contingent loan would be more attractive if total borrowing were at a lower level. As matters currently stand, the extended repayment of an income contingent loan is simply too expensive for the borrower. We do not believe that forcing a borrower to repay in some cases three times what he or she has originally borrowed falls with the Congressional intent for the Title IV programs. The real problem, and the only reasonable solution for students over the long term, is to reduce the level of debt financing as a form of student financial assistance.

THE WALL STREET JOURNAL MONDAY, MARCH 12, 1990

REVIEW & OUTLOOK

College Prices

Evidence builds that some residents of the ivory tower are beginning to figure out what p-r-i-c-e spells. College administrators lately have been patting themselves on the back because tuition increases for the coming year are smaller than those of past years. The University of Michigan is raising tuition 6.5% after last year's 9.6% increase. Lehigh University's tuition boost is 7.7%, the smallest rise in 13 years. Administrators also note their cost-cutting measures. Columbia will freeze its central administration budget this year. That some colleges no longer seem to think the sky's the limit on tuition increases doesn't mean that students and their parents should fall on their knees in gratitude. And they aren't.

At Syracuse University, which recently announced that annual costs will rise above $17,000, students held up protest signs during a basketball game on national television. Similar tuition protests have begun to appear elsewhere (at the University of Miami, students paraded with a coffin in memory of affordable tuition).

These students no doubt recognize that despite some of the publicized hold-downs on tuition, college costs probably will rise faster than the rate of inflation for the 11th year in a row. Tuition at elite colleges has been rising especially fast. In 20 years, according to a Merrill Lynch study, it will cost about $250,000 to finance an Ivy League education.

For a long time, colleges have been able to rely on the fact that many parents, anxious about their children's future, will pay dearly for a college diploma. But that may change as more people pry out information about the costs and spending practices of these institutions.

The amounts of money involved throughout higher education has become staggering. Total university endowments alone doubled between 1984 and 1987 to $47.9 billion, and increased an additional 14% last year. Princeton, for example, has an endowment of $2.5 billion. Despite the fact that some of the better-endowed schools may be earning tens of thousands of dollars annually, per student, from their invested endowments, they continue to charge between $15,000 and $20,000 for tuition, fees, room and board. Where does the money go?

Visitors to many college campuses today observe new facilities going up, even as the number of students in each class remains the same. The new buildings are likely to be student centers, sports complexes or research institutions – the kinds of facilities that will impress potential applicants.

These commitments are not without value, but in a recent essay in the American Scholar, education consultant Jay Amberg suggested that college administrators sometimes seem more interested in attracting students than educating them. Colleges today use sophisticated marketing techniques, slick brochures and traveling recruiters to attract students. Case Western Reserve in Cleveland spent about $1.4 million last year on recruitment, about $2,700 per freshman. Despite this "competition" for applicants, the costs families must bear simply leap upward, with no evidence that the schools feel any need to compete on price.

The U.S. *does* have the best university system in the world, and academics are prone to argue that if the nation wants the best it must pay for it. But the question pressing itself into the debate today is: Are the students paying the freight actually getting an appropriate return share of the schools' financial resources and commitments? There are notable exceptions, but too often it looks as if the schools exist mainly for the benefit of the faculty.

Considerable money is being spent to create research jobs for teachers, and favored professors receive appointments as senior fellows. One fringe benefit of these promotions is often a reduced obligation to spend time with the tuition-paying undergraduates.

Among the tenured professors who do work in the classroom, the load isn't heavy. A Carnegie Commission study conducted in 1984 revealed that the average workload has declined to about seven hours a week, down from 15 hours several decades ago. At elite schools, the teaching load is likely to be four hours a week one semester and two hours the next. The job occupies 30 weeks a year. The average salary for a university professor is $52,950. The workload often falls on graduate students or on "gypsies," academics who can't find a permanent job and who travel from school to school picking up assignments.

The Justice Department is investigating 56 schools for colluding on tuition and scholarships. Many of the colleges have admitted to actions that can be described as at least collegial. Tuitions at Dartmouth, Harvard, Penn, Oberlin, Trinity and Yale all were within 1% of each other in 1989. The bottom line is that it's time for the people who run colleges to devote some effort to subjects already familiar to their students – prices, markets, diplomas and debt.

EDUCATION MANAGEMENT CORPORATION

TESTIMONY OF ROBERT B. KNUTSON, CHAIRMAN AND CEO
EDUCATION MANAGEMENT CORPORATION
PITTSBURGH, PENNSYLVANIA

GOOD MORNING, MR. CHAIRMAN AND SENATOR SPECTER. I AM PLEASED TO JOIN YOU AND THE MEMBERS OF THE SUBCOMMITTEE ON LABOR, HEALTH AND HUMAN SERVICES AND EDUCATION APPROPRIATIONS AS YOU CONSIDER THE FISCAL YEAR 1991 APPROPRIATIONS FOR THE DEPARTMENT OF EDUCATION. AS WE ENTER THE LAST DECADE OF THE 1990s, WE FACE NO MORE CRITICAL CHALLENGE THAN TO EDUCATE AND TRAIN OUR PEOPLE FOR THE EMPLOYMENT OPPORTUNITIES AND PRODUCTIVITY DEMANDS IN OUR FUTURE.

WE AT EDUCATION MANAGEMENT CORPORATION HAVE ONLY A SMALL ROLE TO PLAY IN FULFILLING THAT OPPORTUNITY AND MEETING THAT DEMAND, BUT THOSE OF US IN THE PROPRIETARY OR PRIVATE CAREER SECTOR OF HIGHER EDUCATION HAVE A MAJOR ROLE TO PLAY IF AMERICA IS TO MEET THAT CHALLENGE.

MY COMMENTS TODAY REFLECT THE COLLECTIVE PERSPECTIVES OF THE EIGHT ART INSTITUTES WHICH ARE PART OF EMC, AND ARE LOCATED IN PITTSBURGH AND PHILADELPHIA, PENNSYLVANIA, ATLANTA, GEORGIA, FORT LAUDERDALE, FLORIDA, DALLAS AND HOUSTON, TEXAS, SEATTLE, WASHINGTON, AND THE COLORADO INSTITUTE OF ART IN DENVER. WE ENROLL 12,000 STUDENTS ANNUALLY FROM ALL 50 STATES AND 45 FOREIGN COUNTRIES. SOME 40% OF OUR STUDENTS PREVIOUSLY HAVE ATTENDED OTHER POSTSECONDARY INSTITUTIONS.

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WE ARE REGIONALLY AND NATIONALLY ACCREDITED. WE OFFER ASSOCIATE AND BACHELOR DEGREES, AS WELL AS CERTIFICATES THROUGH OUR EVENING CONTINUING EDUCATION PROGRAMS. COLLECTIVELY, THE ART INSTITUTES ARE THE NATION'S SINGLE LARGEST SOURCE OF COMMERCIAL ARTISTS; AND ARE MAJOR TRAINERS OF PHOTOGRAPHERS, INTERIOR DESIGNERS, PERSONNEL FOR THE RETAILING, MUSIC AND VIDEO INDUSTRIES.

THE EIGHT ART INSTITUTES HAVE BEEN IN OPERATION FOR AN AVERAGE OF 32 YEARS EACH, AND MY COMPANY HAS COMMITTED MORE THAN $90 MILLION OF PRIVATE CAPITAL TO FACILITIES AND EQUIPMENT TO EDUCATE OUR STUDENTS. OUR 1,700 FACULTY AND STAFF MEMBERS SHARE IN THE OWNERSHIP OF EMC, AND THEIR INTEREST AND PRODUCTIVITY CONTRIBUTE TO THE SUCCESS OF OUR STUDENTS AND OUR COMPANY.

WE ARE PROFESSIONALS IN THE MANAGEMENT OF STUDENT FINANCIAL AID FUNDS. OUR STUDENT LOAN DEFAULT RATES AVERAGE LESS THAN COMMUNITY COLLEGES NATIONALLY.

WE MAINTAIN CONTACT WITH 30,000 EMPLOYERS. ALMOST 90% OF OUR GRADUATES ARE SUCCESSFUL IN FINDING EMPLOYMENT IN THE FIELDS FOR WHICH THEY WERE TRAINED.

WE GIVE OUR STUDENTS TECHNICAL SKILLS, JOB SKILLS AND LIFE SKILLS - QUALITY, INTENSIVE, SPECIALIZED EDUCATION THAT WORKS.

THE UNITED STATES TODAY HAS A POSTSECONDARY EDUCATION SYSTEM THAT IS THE ENVY OF THE WORLD FOR ITS DIVERSITY. STUDENTS COME TO OUR COUNTRY TO EXPERIENCE WHAT THEY CAN'T FIND AT HOME. THEY ATTEND OUR COLLEGES AND UNIVERSITIES AND OUR PRIVATE PROFESSIONAL SCHOOLS SUCH AS THE ART INSTITUTES.

OVER HALF OF OUR POSTSECONDARY VOCATIONAL EDUCATION IS PROVIDED BY PRIVATELY OWNED SCHOOLS WHICH DELIVER CAREER EDUCATION AT A SMALL COST TO THE TAXPAYER AND ARE AN IMPORTANT NATIONAL RESOURCE. MOST HAVE HIGH COMPLETION AND JOB PLACEMENT RATES - THE BEST IN OUR POSTSECONDARY EDUCATION SYSTEM.

EVERY YEAR HUNDREDS OF THOUSANDS OF STUDENTS GRADUATE FROM PRIVATE CAREER SCHOOLS AND FILL JOBS NEEDED BY OUR SOCIETY.

PROJECTIONS FOR THE WORK FORCE IN THE YEAR 2000 TELL US THAT A BACHELOR'S DEGREE WILL NOT BE REQUIRED FOR A MAJORITY OF JOBS. SOME TRADITIONAL EDUCATIONAL INSTITUTIONS HAVE INDEED DISCOVERED THIS FACT AND HAVE DEVELOPED SPECIFIC JOB TRAINING PROGRAMS DESIGNED TO PREPARE STUDENTS FOR THE WORLD OF WORK. IF THIS COUNTRY IS TO COMPETE EFFECTIVELY IN THE WORLD ECONOMY IN THE YEARS AHEAD, WE MUST TODAY SUPPORT A VARIETY OF POSTSECONDARY EDUCATION OPPORTUNITIES.

IN THE TIME ALLOTTED TO ME TODAY I WANT TO DIRECT THE SUBCOMMITTEE'S ATTENTION TO SEVERAL ISSUES OF IMPORTANCE:

THE LOAN DEFAULT PROBLEM DID NOT OCCUR OVERNIGHT; IT WILL NOT GO AWAY OVERNIGHT.

THE PROBLEM OF STUDENT LOAN DEFAULTS HAS PREOCCUPIED BOTH THE EXECUTIVE BRANCH AND THE CONGRESS FOR THE PAST TWO YEARS. LAST YEAR'S $1.9 BILLION APPROPRIATION FOR DEFAULTED LOANS DROVE HOME THE POINT MOST FORCEFULLY -- HOW MUCH BETTER OFF WOULD LOW INCOME STUDENTS AND THE NATION BE IF $1.9 BILLION WERE BEING ADDED TO THE PELL GRANT PROGRAM?

THE PIECEMEAL SOLUTIONS OFFERED IN MOST OF THE LEGISLATION DEBATED IN CONGRESS OR INCORPORATED IN THE JUNE 5, 1989, FINAL REGULATION ON STUDENT LOAN DEFAULT PREVENTION TREATS THE SYMPTOMS, NOT THE PROBLEMS WHICH CAUSE LOAN DEFAULTS IN THE FIRST PLACE.

STUDENT LOAN DEFAULTS DID NOT EMERGE OVERNIGHT, AND NO MAGIC WAND WAVING OR BLAME PLACING WILL CAUSE THE PROBLEM TO DISAPPEAR OVERNIGHT.

IN THE FIRST YEAR OF FULL FEDERAL FUNDING OF THE BASIC GRANT PROGRAM IN 1975, THE MAXIMUM GRANT PER YEAR WAS $1,400. ASSUMING THAT EDUCATION COSTS HAVE INCREASED BY AN AVERAGE OF 8% PER YEAR OVER THE PAST 14 YEARS, THE PELL GRANT TODAY SHOULD BE MORE THAN $4,000. INSTEAD, IT IS $2,300.

HOW CAN ANYONE EXPECT THAT, WHEN LOANS ARE SUBSTITUTED FOR GRANTS, THERE WILL BE ANY DIFFERENT RESULT THAN AN INCREASE IN LOAN DEFAULTS.

AND I NEED TO MAKE A POINT THAT CONTINUALLY IS MISSED IN COVERAGE OF STUDENT LOAN DEFAULTS IN THE MEDIA AND ON CAPITOL HILL:

> STUDENT LOANS ARE MANDATED BY LAW TO BE AWARDED TO PEOPLE BASED ON NEED. THEY ARE NOT BASED UPON CREDIT WORTHINESS, CO-SIGNERS, COLLATERAL, OR CASH FLOW FROM A KNOWN JOB, AS WITH VIRTUALLY EVERY OTHER LOAN MADE BY LENDING INSTITUTIONS IN OUR SOCIETY.

IS A LOAN DEFAULT A DEFAULT WHEN IT SHOULD HAVE BEEN A GRANT IN THE FIRST PLACE?

IT'S A QUESTION OF ALLOCATION OF NATIONAL RESOURCES. ARE WE GOING TO INVEST IN OUR CITIZENS, OR NOT?

THOSE SCHOOLS SERVICING THE LOW INCOME POPULATION - MANY PROPRIETARY SCHOOLS, URBAN AREA COMMUNITY COLLEGES, AND HISTORICALLY BLACK COLLEGES - SHARE A COMMON SITUATION: THE GREAT MAJORITY OF THEIR STUDENTS PAY BACK THE LOANS THEY RECEIVE, BUT A LARGE MINORITY DON'T.

SIMPLY PUT, FEDERAL POLICY FORCES LOW INCOME EDUCATIONALLY AT-RISK STUDENTS TO BORROW TO PAY FOR POSTSECONDARY EDUCATION. THESE SAME STUDENTS ONCE RECEIVED GRANTS, AND BORROWED SIGNIFICANTLY LESS OR NOTHING AT ALL WHEN THE GRANT AID WAS MORE AVAILABLE AND COLLEGE COSTS WERE LOWER.

WHILE IT WOULD BE A MISTAKE TO DE-EMPHASIZE THE IMPORTANCE OF A STUDENT'S FAILURE TO REPAY A DEBT, IT IS IMPORTANT TO KEEP IN MIND THAT THROUGHOUT THE HISTORY OF THE GUARANTEED (NOW STAFFORD) STUDENT LOAN PROGRAM, THE NET STUDENT LOAN DEFAULT RATE HAS REMAINED BETWEEN 10% AND 15%. THE UNSPOKEN FACT IS THAT THE DEFAULT RATE IS 10%-15% OF A GREATLY INCREASED OUTSTANDING VOLUME. FEDERAL POLICY AND RISING COLLEGE COSTS CREATED THAT INCREASED VOLUME.

IF CONGRESS IS SERIOUS ABOUT REDUCING LOAN DEFAULTS, IT MUST STOP FORCING LOW INCOME STUDENTS TO BORROW TO PAY FOR COLLEGE, AND CREATE A BETTER BALANCE BETWEEN GRANT AID AND LOAN ASSISTANCE.

WE RECOMMEND THAT THIS SUBCOMMITTEE INCREASE THE PELL GRANT MAXIMUM TO AT LEAST $2,500. IN ADDITION, WE RECOMMEND AN INCREASE IN THE APPROPRIATION FOR THE SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) PROGRAM TO $500 MILLION TO SUPPORT MODEST INCREASES IN INDIVIDUAL AWARDS OR NEW AWARDS TO STUDENTS - THEREBY REDUCING THE LOAN DEPENDENCE OF LOW INCOME STUDENTS. WE ALSO URGE THE MEMBERS OF THIS SUBCOMMITTEE TO RETAIN THE FY 1990 FUNDING LEVEL FOR THE STATE STUDENT INCENTIVE GRANT (SSIG) AND THE PERKINS FEDERAL CAPITAL CONTRIBUTION.

THERE ARE OTHER IMPORTANT FACTORS IN THE STUDENT LOAN DEFAULT PROBLEM:

- GOVERNMENT FINANCIAL AID PROGRAMS AND REGULATIONS THAT ARE A NIGHTMARE OF CONFUSION;

- BANKS WHICH HAVE DONE AN APPALLINGLY BAD JOB OF LOAN SERVICING AND COLLECTION;

- AND A FAILURE TO MONITOR SCHOOLS AND LENDERS IN A COORDINATED WAY.

THE SCHOOL ACCREDITING ORGANIZATIONS, THE VETERANS' ADMINISTRATION, THE RESPECTIVE STATES, THE U. S. DEPARTMENT OF EDUCATION, THE INSPECTOR GENERAL AND OTHERS ALL HAVE INFORMATION ON THOSE WHO ENGAGE IN QUESTIONABLE OR FRAUDULENT PRACTICES - AND INFORMATION ISN'T SHARED, IT ISN'T COORDINATED.

THAT CAN BE FIXED IF ALL THE PARTIES ARE DIRECTED TO WORK TOGETHER. IT MUST BE DONE.

THE DEPARTMENT OF EDUCATION NEEDS THE FULL SUPPORT OF THIS COMMITTEE IN ORDER TO CARRY OUT ITS CRITICAL OVERSIGHT RESPONSIBILITIES. HOWEVER, THIS SUPPORT NEEDS TO COME NOT ONLY IN THE FORM OF ADDITIONAL FUNDING FOR THE INSPECTOR GENERAL, BUT ALSO IN THE FORM OF TRAINING AND MANAGEMENT SERVICES TO PARTICIPATING INSTITUTIONS. THE LAST TEN YEARS HAVE SEEN A 30% REDUCTION IN DEPARTMENT PERSONNEL, WHICH MUST BE RESTORED IN ORDER FOR THE DEPARTMENT TO TIGHTEN UP THE IMPORTANT INSTITUTIONAL ELIGIBILITY PROCESS, AND FOR THE DEPARTMENT TO IMPROVE ITS ABILITY TO WORK WITH THE NATIONAL ACCREDITING AGENCIES AND WITH THE STATE REGULATORY BODIES.

IF THE DEPARTMENT HAD MADE THE NATIONAL STUDENT LOAN DATA SYSTEM OPERATIONAL AFTER THE 1986 HIGHER EDUCATION AMENDMENTS WERE ENACTED, AND CONDUCTED PROGRAM REVIEWS - SOME REAL DATA ON THE SOURCE OF THE PROBLEM FROM AN INSTITUTIONAL DOLLAR VOLUME PERSPECTIVE WOULD BE AVAILABLE - WE MIGHT BE WELL ON OUR WAY TO REDUCING LOAN DEFAULTS. INSTEAD, WE ARE ANXIOUSLY AWAITING THE RESULTS OF OUR INITIAL EFFORTS.

PROVIDING ADEQUATE RESOURCES TO PROPERLY TRAIN CAMPUS STUDENT AID OFFICIALS IN ALL OF THE TECHNICALITIES, NUANCES AND DETAILS OF THE NUMEROUS CHANGES IN THE LAW; THE REGULATIONS AND DEPARTMENTAL POLICIES AND PROCEDURES, AS WELL AS FOR THE EFFECTIVE AND ESSENTIAL MONITORING OF ALL TITLE IV ELIGIBLE INSTITUTIONS, IS CRITICAL. PREVENTING ABUSE AND ERROR AND AVOIDING DEFAULTS, IS VITAL TO THE SUCCESS OF THESE PROGRAMS.

IN THE TRIAD OF INSTITUTIONAL OVERSIGHT BODIES, THE STATES TRADITIONALLY HAVE FULFILLED THE CRITICAL ROLE OF PROVIDING FOR CONSUMER PROTECTION. WE BELIEVE THIS FUNCTION APPROPRIATELY BELONGS TO THE STATES, BUT THE DEPARTMENT OF EDUCATION MUST STRENGTHEN THE MINIMUM STANDARDS FOR STATES IF THE STATE LICENSE IS TO REMAIN A BASIS FOR INSTITUTIONAL ELIGIBILITY FOR PARTICIPATION IN TITLE IV PROGRAMS.

WE FIRMLY BELIEVE THAT THE TRADITIONAL ROLES OF THE DEPARTMENT OF EDUCATION, THE STATES AND THE ACCREDITING ORGANIZATIONS MUST BE MADE TO WORK AGAIN IN ORDER TO REDUCE OR ELIMINATE THE OPPORTUNITIES FOR ABUSE. CREATING SEPARATE PROGRAMS FOR 'VOCATIONAL' STUDENTS IS INAPPROPRIATE, NOT ONLY BECAUSE A LARGE MAJORITY OF POSTSECONDARY EDUCATION NOW IS EMPLOYMENT ORIENTED, BUT ALSO BECAUSE WE WOULD THEN NEED TWO SETS OF BUREAUCRACY TO MANAGE POSTSECONDARY TRAINING. LET US INSTEAD TRY TO MAKE THE CURRENT OVERSIGHT SYSTEM WORK.

YOU WANT, AND WE WANT, ACCOUNTABILITY IN HIGHER EDUCATION. WE THINK CONSUMERS OF EDUCATION SERVICES AT ALL KINDS OF SCHOOLS SHOULD KNOW WHAT THEIR CHANCES ARE OF COMPLETING A PROGRAM OF STUDY; AND WHEN THEY DO, WHAT THE ODDS ARE OF GETTING A JOB IN THEIR FIELD OF ENDEAVOR.

DEFAULT INITIATIVE HAS BEEN IN EFFECT FOR LESS THAN A YEAR. THERE WERE MAJOR CHANGES IN THE SLS PROGRAM JUST THREE MONTHS AGO. MANY SCHOOLS AND LENDERS HAVE JUST STARTED THEIR DEFAULT REDUCTION EFFORTS. THERE HAVE BEEN A HUGE NUMBER OF CHANGES IN THE LAW IN RECENT YEARS, MANY NOT YET TRANSLATED INTO REGULATIONS.

IT IS NOW TIME TO SHARE SOLUTIONS. WE THEREFORE SUPPORT THE CREATION OF A NATIONAL DEFAULT REDUCTION TASK FORCE, MADE UP OF ALL OF THE VARIOUS PARTIES INVOLVED IN DEFAULT REDUCTION, INCLUDING SCHOOLS, LENDERS, GUARANTEE AGENCIES AND THE DEPARTMENT OF EDUCATION. WE ASK THIS COMMITTEE TO PROVIDE THE DIRECTION TO CREATE SUCH AN INITIATIVE, UNDER THE RESPONSIBILITY OF THE DEPARTMENT OF EDUCATION. ONLY BY JOINING FORCES CAN AN ENVIRONMENT BE CREATED WHICH WILL SUPPORT CREATIVE SOLUTIONS.

IN CONCLUSION: WHAT WE ALL WANT IS TO PRESERVE THE DIVERSITY OF OUR POSTSECONDARY EDUCATION SYSTEM. THIS IS ITS STRENGTH. FREEDOM OF CHOICE AND EQUAL ACCESS ARE ITS FOUNDATION.

AS A NATION, OUR MOST IMPORTANT INVESTMENT IS EDUCATION, BECAUSE IT IS OUR FUTURE.

Point of View *By Stephen J. Blair*

Congress Should Reject 'Separate but Equal' Aid Programs

FOR MILLIONS of our young people, the reauthorization of the Higher Education Act in 1991 may well determine whether or not they have the chance to pursue *their* vision of the American Dream. For many, the dream centers on a traditional college education, and rightly so. But four-year colleges and universities are hardly the only paths to getting ahead in our society: In fact, only half of our nation's young people go on to traditional colleges.

Fortunately for the other half, the non-college-bound, Congress recognized that traditional higher education isn't—and shouldn't be—the sole option in postsecondary education when it designed federal student-aid programs three decades ago. By making guaranteed student loans, Pell Grants, and campus-based aid programs available to students regardless of which option they chose—traditional colleges or trade and technical schools—our nation has nurtured a pluralistic system of postsecondary education, one that recognizes that skilled artisans, tradesmen, and technicians are valued members of American society.

Today, though, this pluralistic system is under attack from some leaders in traditional higher education, who have proposed that Congress establish separate financial-aid programs for students attending postsecondary trade and technical schools. Everyone who cares about educational opportunity for all Americans should be alarmed at the very notion of "separate but equal" student-aid programs. For if history teaches us anything about education, it is that separate is inherently unequal.

Intentionally or not, the advocates of separate programs are sending the unmistakable message to non-college-bound young people that their lives and potential contributions to society are not as important as those of college-bound youth. That message debases every non-college-educated American.

Leaving aside for a moment the issue of discrimination—this time on the basis of economic circumstances and career choice—such proposals constitute short-sighted public policy from even the narrowest economic standpoint. For example, the argument that creating a separate financial-aid program for trade and technical schools in the Department of Labor would be cost-effective simply doesn't hold water.

Under the current financial-aid system, the cost per student for taxpayers averages $2,500 for students in private trade and technical schools. By comparison, the Labor Department's programs that train people for jobs cost twice as much per student. Each graduate from a program financed by the Job Training Partnership Act costs taxpayers $5,000. And the Job Corps is significantly more expensive at $15,000 per graduate.

Advocates of separate student-aid programs also overlook the fact that a substantial number of students migrate from one sector of postsecondary education to another. Under their proposal, an individual attending a private trade school could take out a "vocational" student loan and later transfer to a community college and take out an "educational" loan. In all probability, separate student-aid programs would actually encourage excessive borrowing and could be a costly nightmare to administer.

In part, such proposals are a reaction to Congress's growing concern about student-loan defaults and fears that the expense of paying off defaulted loans may reduce the money available for other student assistance at a time when all postsecondary institutions are, to be blunt, in stiff competition for students. Rather than working with trade and technical schools to formulate reforms to address the loan-default problem thoughtfully and pragmatically, some leaders in traditional higher education are intent on serving up our sector to Congress as the scapegoat, as if removing our students from the student-loan program would magically solve the default problem.

Well, it won't. The fact is, of course, that student-loan defaults are a problem for everyone in postsecondary education. All available research demonstrates that the default rate of a postsecondary institution, lender, or guarantee agency is *primarily a function of the population served*. In addition, the costs of educating at-risk students, and making and administering loans for them, are greater regardless of the type of postsecondary institution that a high-risk student attends.

In this context, it is not surprising that student-loan default rates are higher among students attending trade and technical schools. Compared with traditional higher-education students, those at trade and technical schools are significantly more likely to be high-risk—that is, poor, female, from a minority group, independent of parents' income. They are likely to have scored lower on academic-ability tests.

SEVERAL OTHER important factors about trade and technical students too often are overlooked in the debate about student-aid programs:

- Sixty-one per cent graduate from their programs, compared to 43 per cent in public community colleges, 58 per cent in four-year colleges, and 33 per cent in the Job Corps.
- Eighty-one per cent of the graduates immediately find jobs in their chosen careers.
- The graduates make up about half of the skilled entry-level workers in the United States.

But this is not to suggest that leaders of trade and technical schools believe the loan-default problem should be swept under the rug. Far from it. The National Association of Trade and Technical Schools is working closely with the Department of Education and Congress to meet the default problem head on. In 1986, it and several other associations of trade and technical schools launched a comprehensive Default Management Initiative designed to help both schools and students avoid defaults. This initiative has produced results: The Department of Education announced in 1989 that trade schools had posted the largest decrease in loan defaults of any educational sector. And NATTS also has recommended a number of tough legislative proposals to address the default problem, including tightening requirements that institutions refund students' tuition if they drop out and barring loans to students at schools that have withdrawn from an accrediting agency or whose accreditation has been revoked.

IT IS ESSENTIAL to recognize, however, that a major factor in the increase in student-loan defaults in recent years is the imbalance between grants and loans. Federal policy over the last 10 years has forced our neediest students to rely upon loans to finance their postsecondary education. In 1980, grants constituted 40 per cent of the typical aid package, with loans making up most of the remainder. Now, grants make up only 29 per cent of the typical package.

With the Department of Defense proposing up to $180-billion in cuts in its budget over the next three years, now is the time for all members of the education community to stand together and demand the redress of the brutal imbalance between loans and grants in federal student assistance. We must work together to insure that every student has access to the funds necessary to attend the institution and program of his or her choice.

The fundamental question that we face, as a society, is nothing less than whether our young people will continue to have equal access to, and freedom of choice in, postsecondary education. Because, make no mistake, the separate financial-aid programs advocated by some in traditional higher education will be separate *and unequal*. Indeed, their proposals will severely restrict a major avenue that at-risk students have used to break out of their current circumstances—and we will be creating two societies divided along the lines of education, the haves and the have-nots.

At a time when the walls of apartheid are inexorably crumbling in South Africa, it would be tragic if here in America we began to build walls of educational apartheid.

Stephen J. Blair is president of the National Association of Trade and Technical Schools.

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Senate Permanent Subcommittee
on Investigations
EXHIBIT # 19.

March 8, 1990

Senator Sam Nunn, Chairman
Senate Permanent Subcommittee on Investigations
United States Senate
Washington, D.C. 20510

Re: 5 Reasons Why Proprietary Schools Fail in Their Mission

Dear Senator Nunn:

I'm writing this letter to give you the benefit of my 18 years' experience as a proprietary school owner/director. You should have this information for your current investigation, and I volunteer my live testimony if it would be helpful.

I founded Paralegal Institute in 1972, and since 1985 we have been a participating school in federal financial aid programs (GSL-Stafford, SLS, Plus and we are Pell-qualified). Also, I am an attorney (Harvard Law School '62) and worked in several Wall Street law firms as an associate years ago. I am a director and the treasurer of the New York State Association of Career Schools, a trade association for proprietary schools.

I use the term "failure" below to refer to the proprietary-school problems your subcommittee is investigating such as higher defaults, inadequacy of training, unsatisfactory job placement rates, unacceptably low completion rates, overcharging, excessive hours of training for the skills being taught, and fraud used to induce students to attend proprietary schools.

I. Reasons for Failure Categorized

The reasons for this failure of these and related federal financial aid programs fall into these main categories:

a. Original failure of state regulatory bodies to detect or deal directly with fraud or alleged fraud.

b. Subsequent excessive and irresponsible state regulation of proprietary schools.

c. Change of the quality of borrowing student in 1986.

d. Misuse of statistical proof by U.S. Office of Education, Congress and proprietary-school critics.

e. Excessive requirement for a program to qualify for financial aid (300-hour minimum).

II. Changes Which Are Needed

a. **Enact federal legislation to preempt state laws regulation proprietary schools** to the extent such laws differ from the state law regulating the competing non-degree vocational programs of degree-granting schools.

b. **Enact federal legislation to permit student borrowing to attend vocational programs of any length** and regardless of accreditation at any school (as long as state licensing requirements (see "a" above), if any, are met.

c. **Enact federal legislation to require participating schools to pay** (through deduction made prior to the school's receipt of the funds, as default-risk premium insurance) **percentages of their tuition** (paid out of financial aid as distinguished from the ordinarily larger borrowed amount) **to reflect the school's default rate**(s) and, perhaps, with a lower factor built in (possibly as an offset or credit) for [audited or verified] placement performance

d. **Enact federal legislation to eliminate as much as possible of the red tape surrounding the financial aid programs**, paperwork requirements, non-educational governmental goals (drugs, military affidavits, etc.) audits, limitation agreements, and the like, or use the school deductions to hire federal employees who will maintain the needed records in the school for the U.S. government's benefit to convert participating schools to educational institutions from their present status as paper-creating, paper-filing, paper-inventorying, paper-retrieving and paper-auditing subagencies of government. Small schools cannot perform the paperwork requirement adequately and the risks of having to repay tuition for paperwork failures are too high and the costs for all schools, students and society are too high.

e. **Enact federal legislation to require default (and placement) statistics to be reported and compared on a basis that permits non-degree vocational continuing education programs of degree-granting schools to be compared with the programs of proprietary schools**, with some factors built in for demonstrated educational risks (such as welfare recipient and income or asset level of student population, and unemployment rate in the community served, which would require a change in the present "cohort" system of lumping all statistics together for a participating school with multiple branches in multiple regions of the country).

f. **Enact federal legislation to permit participating schools to train persons on welfare at the school's own expense**, with the school to be paid compensation expressed as a percentage of the money saved the federal, state and city governments on their combined welfare costs for the school's successes, and nothing at all for the school's failures. Attached is a letter sent to you previously in which this unique proposal is set forth at length.

III. Explanation of "I. Reasons for Failure Categorized"

a. Original failure of state regulatory bodies to detect or deal directly with fraud or alleged fraud.

The steady increase in state regulation of proprietary schools seems to result directly from the failure of state regulatory bodies to detect fraud and deal directly with it under the general anti-fraud laws of the state. In other words, they failed to go into court to stop the alleged fraud (perhaps because there was little or no fraud). If the state agencies had brought suit against schools committing fraud, the perceived need for additional legislation to cure the actual or perceived fraud would have been far less or non-existent. But, because the state agencies were unable to perform the simple task of regulating fraud, they (or someone, perhaps the higher-education competition) clamored for additioal laws to be administered by the agencies which had failed in their efforts to administer the [anti-fraud] law in the first place. And when these new laws regulating proprietary schools proved insufficient to eliminate the actual or perceived fraud, the pressure (from the agency of proprietary school competitors) clamored for additional legislation against proprietary schools, which we all agree hasn't resulted in any cure for the problem of why proprietary schools "fail" in the sense defined at the outset above. It seems that failure in regulation has been treated as the signal for more of the same medicine, which the results predictably (to those of us who are in the regulated industry) the same. State regulation of proprietary schools and the results seem quite comparable to the well-publicized, total failure of bureaucratic regulation in the Soviet economy. I would be $100 that you, as one of the persons writing new legislation, have no idea what regulation proprietary schools have to put up with, or what the effect such mis-regulation has on performance by the school. Let me continue with the story....

b. Subsequent excessive and irresponsible state regulation of proprietary schools.

To explain how excessive and irresponsible state regulation of proprietary schools has become, I urge that you read our complaint against the New York State Education Department (the "SED") and its officials, a copy of which is enclosed. In case the complaint is separated from this letter, I will cite several instances of excessive and irresponsible regulation. In New York State, a proprietary school is not permitted to run any kind of classified, space advertisement, radio/cable/tv commercial unless every word is approved in advance in writing by the SED. Schools are like airlines. We have seats to sell, and once the plane takes off, unsold seats are a loss to the airline (and school). It takes the SED about 2-3 months on the average to approve a 3-line classified ad which has been first submitted for review. Of course, the SED does not review any advertising at all which is run by the competing non-degree vocational programs offered by the degree-granting schools. Also, none of our students may be enrolled except by a licensed sales person. It takes the SED about 2 months on the average to issue a license to a salesman who has transferred from one proprietary school to another. During this time, the school is obliged not to make any sales (unless they have, hopefully, another licensed salesman). Also, because of the delay of several months in being able to hire a replacement, a school is unable to discharge a salesman (who is committing fraud or other unsavory acts) because the school will be without income from such sales slot for a period of 2-3 months, which would be a penalty of perhaps 10 enrollments per week (or $10,000 per week because of the delay). Put yourself in the place of a movie theatre owner, car manufacturer or politician - how could you run your activity if you had to wait 2-3 months for approval ($40,000 to $60,000 substitution "penalty" in lost tuition income) each time you fired and replaced an errant or bad salesman or similar tuition loss each time you needed to change your advertising to reflect program updates or changes.

The most important thing to remember is that licensing of proprietary schools must be divided into 2 aspects: (i) what licensing does for the school - **income**; and (ii) what the school does for this privilege - **revenue outgo**. Licensing as a benefit to the school is solely to provide incoming revenue. If these revenues are cut off, such as by the state agency failing to issue the required advertising-copy approval or saleman license on a timely basis, the sole benefit to the school is partially lost forever. The cumulative effect of these losses, time after time, waiting for these 2-3 month delays to obtain approvals as to every step of the regulated school business, is destructive of the school's ability to perform on the "outgo" or performance half of the equation - the school's obligations to perform. This is the single most important reason for the "failure" you are investigating. You must be made aware of this, and remember that the competing non-degree vocational programs of degree-granting schools are not so regulated.

Another problem is that it takes about one year to be able to substantially revise or replace a proprietary-school program, with all the filings and prior approvals required before the changes can be implemented at all levels of regulation: state, accrediting and federal. No wonder, then, that proprietary schools are in many cases giving out-of-date instruction. We need to be able to update or change our curricula far faster, without all of the state, accrediting and federal red tape (the most arduous red tape, of course, is the state red tape, which creates the one-year delay).

Thus, when you wonder why proprietary schools are deteriorating, one sure answer is that by excessive, arbitrary and discriminatory regulation, proprietary schools are being prevented from doing the job we set out to do, and are being compared with schools which are not similarly handcuffed or handicapped. We need an end to this mindless regulation, and in its place I make the proposals outline in "**II.**" above.

Maybe now you can see why NYS, the state with the most excessive regulation of proprietary schools, is also the state with the greatest default rate. One follows the other. Excessive regulation means that the school is concentrating its most valuable management time on regulatory paperwork instead of on new and improved programs, and excellence of instruction and placement. **Congress should relieve us from mindless state regulation by preempting the excesses**, on the basis that such excesses prevent proprietary schools from performing their duty as participating schools under federal law. See my correspondence with the U.S. Justice Department which is attached hereto.

c. Change of the quality of borrowing student in 1986.

In 1986, the federal statute was changed to require that borrower show need. In other words, as of that time, borrowers had to show that they were unable to pay off the loan as a condition to receiving the loan. At least many bankers would say this. Also, students who previously were entitled to grants because of their impoverished condition had to take out student loans. After changing the category of borrowers from a group including middle-class and affluent persons, to a group consisting of comparatively impoverished persons, the default rate went up. What else would you expect? Anyone could have predicted this result. The lower-income persons find it more difficult to succeed, have more problems to overcome, and have no capital or family assets to fall back on to pay off student loans. Our NYC high schools produce poor results, the top of the graduates go to college (and have lower default rates) and many of the remainder opt for vocational school training (and have higher default rates). The city's **community colleges have a much higher non-completion rate** and, I believe, default rate than the city's proprietary schools. You should look into this. But this is no surprise. We are all aware that the longer the program the higher the drop-out rate. Why a higher default rate for proprietary schools (in comparison to NYU) surprises Congress surprises me. To compare proprietary school tuitiion with the lower-cost programs in public schools, you must add back the amount of taxes and charitable funding which supports the public student's studies, otherwise the comparison is unfair and deceiving. You could argue that no student should attend Yale using federal financing if he could get into a free publicly-supported college.

d. Misuse of statistical proof by U.S. Office of Education, Congress and proprietary-school critics.

Statistics which compare the default rates of the graduates of Yale with the graduates of a 300-hour trade school for persons not college bound is obviously faulty. Comparison of a 300-hour trade school's default rate with NYU's default rate is also flawed, because any problems with NYU's competing non-degree vocational programs are buried within NYU's default rates for its medical school, law school, PhD and Master's programs, etc. You are expecting too much from statistics which any statistician would say are faulty. Also, statistics which don't take the local welfare and employment rate into account would also seem to be flawed, as is the failure to take the income-level of the area surrounding the school, or the type of program which the school is offering. In other words, if a school wants to take persons off of welfare, and achieves a 50% rate, is this not worth it to the U.S. government? Wouldn't you hand out $2,000 to anyone who could (for that amount) take a person off welfare? How many persons can any other federal or state agency take off for that per-person price? - should be the question. The current legislative directives are seeking to eliminate this one bright source of dealing with welfare cases, and I urge you to look at the economics of this before dismantling the proprietary school industry (which, incidentally, is already being dismantled by state regulatory excesses, unless you intervene with preempting legislation as I suggest). I, as a proprietary school owner for 18 years, sent each of the Senators and House Members a letter several months ago proposed legislation which would permit a school (whether proprietary or not) to train persons at the school's own expense in exchange for a percentage of the money saved if the school succeeded in taking the student off welfare. What's wrong with this approach? Aren't you looking for school performance? What is stronger than payment only upon performance? Yet, nothing was done or said.

Once again, I volunteer to appear before your panel to amplify these views. I have 18 years' experience in owning and running a school, and I believe you should listen to this side of the issue, to obtain a full and true picture of the problem you are investigating.

Also, while talking about statistics I shouldn't forget to mention that it is unfair, obviously, to use statistics which charge a later school for the default or a loan given to a student while attending a prior school, or to equate $10 or loan default with $10,000 of loan default; or to prevent schools from lowering their default rate by paying off defaulted loans, especially since the penalty for excessive defaults is to reduce or eliminate the school's tuition from financial aid. The school pays either way.

e. Excessive requirement for a program to qualify for financial aid (300-hour minimum)

You wonder why there is overcharging and excessive hours of training for the skills being taught. The answer is readily available: Because you won't accept a 15-hour word processing program (tuition $250), schools find it necessary to teach the same subject in 300 hours or more (tuition $4,000 or so). There should be no mystery. By federally-imposed requirement, we had to increase the length of our paralegal program from the original, workable 195 hours, to the federal minimum of 300 hours, and in the process increase tuition accordingly. Why does a school charge $4,000? Because the amount of federal funding available for a 300-hour program permits such change, and somebody has to pay for all of the regulatory excesses. Without regulation, the tuition would be one-half as much (or less). When schools have to repay 100% of the tuition (i) because an enrollment agreement was not signed 3 times; or (ii) because of a delay in approving an agent's license (with the resulting signing of the enrollment agreement by an unlicensed agent); or (iii) because a high school diploma was misfiled; or (iv) because a military affidavit was missing from the file; or (v) because a school at the end of its lease moved from one location in a city to another without prior approval of all students; or (vi) because an SLS loan was inadvertently provided instead of a plus loan; or (vii) because an age certificate was missing from the student's file; or (viii) because evidence of citizenship or immigration status was missing from the file -- other students have to pay the refund. The school is only a conduit for distribution of collected tuition to the various expenses which make up the school, including these afore-mentioned agency-ordered refunds to students who have completed the program and obtained a job in their field. We overcharge for the value we give because of federal requirements which insist upon more hours than are needed (300 minimum) and because schools have to pay 100% refunds (with interest etc.) because of paperwork deficiencies for students who have completed and benefitted from the program. Why would anyone expect any other result?

I look foward to hearing from you or your staff.

Very truly yours,

Carl E Person

Carl E. Person, founder and director

Encls:

1. NYSACS complaint.
2. Justice Dept. correspondence.
3. Letter to U.S. Senators re welfare training for contingent fee.

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January 17, 1990

BY HAND

John H. Clark, Esq.
Assistant United States Attorney
United States Department of Justice
26 Federal Plaza - Room 3630
New York NY 10278

Re: Statutes in 49 States Excessively Regulating Proprietary Vocational/Technical Schools But Exempting Competing Non-Degree Vocational/Technical Programs of the "Continuing Education" (i.e., Profit-Making) Divisions of Colleges & Universities

Dear Mr. Clark:

The federally-funded proprietary school system in the United States is being threatened with extinction. This is happening under the guise of state regulation in 49 states (Missouri excepted, I believe) which is increasingly prohibiting proprietary schools from performing their function, with resulting increases in regulation being added to make it impossible for proprietary schools to function as schools and, it should be noted, to function as required by federal law. Meanwhile, the competing non-degree occupational programs of "continuing education" divisions of colleges and universities remain wholly unregulated and are flourishing.

It appears (at least to the proprietary school industry in the United States, with gross sales of several billion dollars) that the politically powerful higher education groups in the various states have been successful in obtaining more and more regulation against proprietary schools, while at the same time exempting their own trade schools (non-degree, continuing education programs) from the same regulation.

The purpose seems clear, to divert the federal funds which flow into proprietary schools through the Stafford , Supplemental, Plus and Pell Loan Programs plus the forthcoming billions in Welfare Reform money, and let them flow instead into the state, city and county colleges and universities, to reduce the need for government funding to maintain these institutions of higher learning. Continuing education means profits to colleges and universities, and by putting proprietary schools out of business, or severely crippling them, the colleges and universities would profit. Colleges and universities have found that their mission of offering degree-granting programs has become less important, and that they need to offer more relevant vocational programs to be able to fill their empty seats. Thus, most colleges and universities offer vocational, non-degree "continuing education" programs in competition with the programs offered by licensed proprietary schools in the area, but without any of the regulation.

I enclose a draft of a patent application of mine which helps to explain some of the problems, and a cure I propose. Also, I include a copy of a complaint filed by various proprietary schools and the state trade association against the New York State Department of Education and various officials thereof in the federal court in the Southern District of New York.

I ask that you give the complaint set forth in this letter serious scrutiny. The problem is national, but seems to be most serious in New York and California. For example, in California a law was recently enacted requiring that any proprietary school ask permission of the state regulatory body before it can give a pay raise to any of its employees. Through such heavy-handed regulation, proprietary schools will become public utilities and as effective as the public high schools in the urban areas from which we draw most of our students.

In New York, we have to wait often 3 months or longer before we can get approval to run a 3-line classified ad or any other advertising or promotional matters. Often we have to wait 2-3 months or longer before we can start a hired salesperson to replace a licensed salesperson who has quit. You can't run a school like this, and the colleges and universities in competition with proprietary schools are not required to do any of these things (or the other things described in the enclosed complaint and patent application). I have been in the school business for 18 years (same school), and I can tell you that proprietary schools cannot stay in business under this type of regulation, which is getting much worse. The combination of decreased flexibility and higher costs at the state level coupled with the federal mandate of higher performance by all schools, makes it impossible for proprietary schools to function. My alternative is spelled out in the (draft of the) patent application, to be filed shortly.

What the Justice Department should do is file a class action or similar action against the various states to declare these state statutes an unreasonable restraint of trade to the extent that they fail to regulate the competing non-degree programs of the state's colleges and universities (profit, non-profit or publicly-owned). By requiring the statutes to regulate both types of schools, it can be expected (as anticipated in my patent application) that the overall regulation will diminish. I'm sure that the higher education lobby in each state will see to that result. (See my patent application, once again.)

It should be noted that colleges and universities generally service the middle class and affluent members of our society, whereas the poor often wind up in proprietary schools, as their only realistic hope of training for a better position. The comparison of results of graduates of Columbia with the graduates of a 3-month proprietary trade school program shows, predictably, that graduates of Columbia fare better than the typical graduate of a proprietary school. But this is hardly justification for elimination of proprietary schools and transferring their business over to the non-degree vocational programs of the nation's colleges and universities, which is precisely the direction which is being taken, unless you, the Justice Department, do something about it. The issues involve antitrust, civil rights, commerce clause, due process and equal opportunity, among other issues.

You might be interested to know that the highest ranking members of the New York Legislature (regulating proprietary schools) desire to capture the federal money now going to proprietary schools and use such funds for government-supported colleges and universities in New York State, as a revenue-producing measure for a strapped state.

If you have any questions, please give me a call.

Very truly yours,

Carl E Person

Carl E. Person, Founder and Director

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February 9, 1990

BY HAND

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Re: Statutes in 49 States Excessively Regulating Proprietary Vocational/Technical Schools But Exempting Competing Non-Degree Vocational/Technical Programs of the "Continuing Education" (i.e., Profit-Making) Divisions of Colleges & Universities

Dear Mr. Clark:

As a followup to our conversation of today, I would like to reduce to writing the problem as it relates to the federal financial aid programs, and to make some additional arguments.

State licensing of proprietary schools began after the World War II, I've been told, to permit proprietary schools to obtain federal funds for the training of veterans. After years of state regulation, the results of proprietary schools have apparently declined (at least in the cities), with the demand for more state regulation. State regulation has evolved over the years to outline each step along the way which a licensed school must take, from A to Z, to hopefully ensure that the licensed proprietary school was going to achieve the desired results with their students (meaningful education, high employment rate, good salaries, repayment of student loans, etc.). But on a national level the federal government determined that state laws were not doing a sufficient job; many schools had a high dropout rate and a high loan default rate. With all the specificity of excessive regulation, the state laws failed to produce results now mandated under federal student-aid law.

Accordingly, the federal government passed a different type of regulatory scheme, requiring degree-granting as well as proprietary schools to produce results, or lose their entitlement to participate in the various federal student loan programs. In other words, federal law requires results, and doesn't care what steps a school takes to produce those results. This favors the Continuining Education Divisions of the degree-granting schools, who are free to do whatever they need to do to obtain the desired results.

On the other hand, licensed proprietary schools remains channeled in the antiquated straight-jacket of A to Z regulation which prohibits them from doing what is needed to obtain the results mandated by federal law. I see proprietary schools imprisoned in state regulation while the federal policy requires schools to be in a race for excellence, requiring a great degree of freedom to change programs, market new programs quickly, eliminate bad sales personnel and replace them with more appropriate sales representatives, when required. But state regulation prohibits this, and makes us unable to compete in the race for excellence, which causes us to lose our participation in the federal loan programs.

You must understand that the only thing which state licensing gives schools on the plus side is the opportunity to obtain income which the school needs to be able to pay for the obligations it has on the other side of the ledger. Without sufficient income, we cannot do what is required to make our schools excellent. Any state regulatory tactic which reduces or cuts off our income is preventing us from performing as desired and mandated. For example, about 2 months ago a proprietary school in New York City received approval for the new enrollment agreement filed with the SED to permit a tuition increase, and immediately changed its newspaper advertisement which listed the old tuition amount. The SED penalized the school by denying it the right to advertise at all for 3 weeks (a most unfortunate and non-thinking penalty), saying that the school should have filed an amendment to its advertisement (and waited 3 months for approval, I guess). The SED didn't say whether the school could have run the old ad with the former tuition amount. SED rules would not permit deleting the tuition amount without the filing of new copy and waiting the 3 months. You can see what type of a straight jacket we are in by reason of this type of regulation from persons who (charitably) know no better or (not so charitably) have a personal agenda to put proprietary schools (their own charges and wards) out of business.

For example, I tried to start a Personal Assistant Training Program (form of resume enclosed for the hypothetical completer of the program), and I was subjected to months of waiting for new representative licenses, licensing of advertising copy, licensing of tv commercials (the rejection came in after the commercial was shot and edited), and most importantly the inability to market the program under the name I wanted to use. I was forced into using "Personal Assistant" instead of my choice, Business Assistant or Management Assistant (2nd choice). Also, I was not able to use copy such as a "rewarding" career opportunity; or this ad headline or teaser: "TOP GUN" (to interest prospective students in becoming a personal assistant or aide-de-camp to an owner or manager of a small business). It is unbelievable how difficult it is to run a business when it is regulated by "regulators" who have no knowledge of the business they are regulating. In New York State, the person who reviews and rejects/accepts copy (Miss Betty Shields) had no apparent prior experience in writing copy and no prior school experience. The present head of regulation of proprietary schools has a school-lunch administrative background.

This type of regulation in place of the school director is leading to disaster, and can be blamed for the poor performance of proprietary schools at least as much as the evils or alleged evils which the increased regulation has been (arguably) designed to cure. The alleged fraud of schools could always be stopped by existing laws against fraud, and the added laws designed to prevent fraud merely make our proprietary school industry non-competitive with the other schools which offer the same courses without the same restraints.

I believe the solution is to investigate the effect of excessive state regulation on the ability of schools to comply with federal law, and upon a showing of inability (which I believe can be easily demonstrated) to strike down the laws under the preemption doctrine or as a denial of the civil right of citizens to obtain an education of their choice; infringement of the commerce clause, or because the discriminatory laws involve denial of due process to students and proprietary schools alike. Also, there are racial overtones to the problem, because the highest default rates involve minority studentsss. Finally, there are the antitrust problems involving a conspiracy among the degree-granting colleges and universities to eliminate proprietary schools through excessive administrative activity and statutes directed against them and a conspiracy to monopolize the field of training persons with federal money.

It is also important to understand that the top manageent of proprietary schools are responsible for regulation, curriculum and placement. To the extent we are trying to write copy for approval by the state, and rewrites of copy, and preparing alternatives because of the possiblity of rejection, our time is not available for the betterment of curriculum and placement efforts. We are small businesses (proprietary schools) and our main asset is the time of the top 1-3 persons who manage the school. To the extent the state absorbs this time in their meaningless regulation, we are deprived of the asset we need to devote to producing the results mandated by federal law. The two regulatory approaches conflict substantially, which is causing proprietary schools to go out of business, often through loss of the right to participate in federal loan programs. SLS (Supplemental Loans for Students) is not available to schools with a default rate of 30% or above. We are at 29.5% right now and climbing. Thus, we will lose SLS next year and our students will not be able to pay for the tuition. Our efforts should be on solving the default rate, by quickly producing and trying better programs, and changing them if they don't work out. It takes about 2 years with required state approvals to undergo this test, which of course is like having no right at all. The state licensing scheme offers us no hope to comply with federal law.

The State Education Department (Bureau of Proprietary Schools) has been claiming for the past 12 months a shortage of SED personnel to (i) review submitted advertising and promotional material and (ii) process sales agent (representative) licensing applications, but with the SED's continued failure to improve the problem we have reached the conclusion in the industry that the SED has found a way to put proprietary schools out of business, through regulatory neglect in granting approvals needed to obtain the income required to perform the activities of a school, including the excessive regulatory activity. Thus, the SED has had a buildup of personnel and regulations in the costs side of the proprietary school business, and at the same time the SED has allowed the income side to be substantially affected by denying regulated schools the licenses needed to compete for income in the marketplace, which included many non-regulated degree-granting schools. Any reasonable person can see the effect of such a policy of increasing costs and decreasing income - going out of business. The SED has the knowledgeable intent of putting its own regulatees out of business, which has got to be a violation of law. Imagine if the agenda of the Chief of the Fire Department was to close the Fire Department down. Education is too important for this country to permit a non-elected group of law administrators to defy the law by putting its charges out of business through regulatory inaction, especially when it appears that this is on the regulators' agenda, for the purpose of diverting federal student-loan funds and federal welfare funds to state-supported schools (and necessarily to the degree-granting schools), and away from the schools which service minority members to a much greater extent. There is now a bill in the New York legislature to increase the annual proprietary school licensing fee for my school from about $1,000 per year to about $46,000 per year, a proposed 4500% increase in one year, which itself would be sufficient to put us out of business, and frustrate federal policy of permitting students to have a choice in their schooling. See p. 1 of our trade association's current newsletter.

I hope this addendum to my original letter will be helpful.

Very truly yours,

Carl E. Person, Founder and Director

Information Relating to the Experience of

William Smith
215 W. 90th St.
New York NY 10024

(212) 999-9999

Specialized Training:

Personal Assistant Training Program, 301 Hours, Management Assistant Institute, New York, New York, June, 1989 through December, 1989, including how to be of assistance to a manager, executive or owner in matters relating to:

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- Management
- Publicity and Public Relations
- Taxes

Employment Objectives:

To assist and save the valuable time of a busy manager, business owner or executive by doing as many as possible of his/her daily list of things to be done; also, to try to anticipate, intercept and deal with the various lesser problems which often unnecessarily prevent the employer from performing what he/she sets out to do; and to act as an intermediary between the employer and the other employees whenever this is useful. In effect, I would like to be something like an "aide-de-camp" to a "general" in the ongoing and important battle of doing business efficiently and profitably. I have a wide variety of insights and skills which should be useful in performing this job.

Internship:

Performed a 2-month voluntary internship as a parttime personal assistant to Walter Jones, Manager of Textron Worldwide Industries, Inc. while enrolled in the Personal Assistant Training Program at Management Assistant Institute.

Familiar with the Following Equipment:

- PC XT personal IBM compatible computer
- Invisible Software, Inc.'s Net/30 PC LAN Network
- Amdek model 1280 and Wyse 700 high resolution monitor for PC
- Logitech Mouse model C7
- Quadram Micro-Phaser printer buffer
- Hayes modem
- Irwin backup unit
- Time/date card for PC
- Hewlett-Packard laserjet printer, model 2686A
- Panasonic KX-P1092 or KX-P1091 multi-mode printer
- Diablo impact printer (for Xerox 850/860)
- Dest PC Scan Plus scanner
- Toshiba portable VHS video recorder with converter
- Panasonic VHS video playback tapedeck
- Pentagon audio cassette duplicator (3 slaves), model C342
- Sony or Panasonic audio cassette recorder and playback machine
- AT&T Merlin telephone system (handsets)
- Radio shack portable cellular telephone with peripheral equipment
- Sharp facsimile ("FAX") machine, model FO-300
- Pitney Bowes copier, model D860
- VeloBind strip binding equipment, model 223

- Shrink wrap heat sealer
- Executold letter folding machine
- Standalone Xerox 850 or 860 word processor
- Pitney Bowes mailing machine with postage meter
- Simplex programmable lock

Familiar with the Following Software:

- Invisible Software, Inc.'s Net/30 Network & Operating System for 2-10 Users
- Ashton-Tate's dBase III Plus
- Borland's Sidekick Plus
- Crosstalk IV communications
- Quarterdeck's DesqView 2.0
- Dest scannner software
- Foxbase's Foxbase Plus Version 2.0
- Funk Software's Sideways
- GEM's scanning software - line copy
- GEM's scanning software - graphics
- Hayes' Smartcom II communications
- Irwin backup software
- SoftLogic's The Disk Optimizer
- Lotus Development Corp.'s 1-2-3 spreadsheet
- Microsoft's MS-DOS or PC-DOS, all versions
- Microsoft's Word 4.0 word processing program
- Norton's Utilities
- Norton's Commander
- Central Point Software's PC Tools
- Procomm communications
- Wishlist's Filesearch
- WordPerfect Corporation's WordPerfect word processing program
- Xerox's Ventura Publisher desktop publishing program

Licenses and Additional Skills:

- Notary Public, State of New York
- Driver's License, State of New York*

Areas of Business Knowledge or Experience Include:

- Carpentry*
- Retail Drug Store*

---

* Not part of the Personal Assistant Training Program but added to show examples of what each student should add to the basic resume to tailor it to the student's own background. Students in the 602-hour Multi-Skilled Paralegal/Personal Assistant program should use the resume for which has additional information about their paralegal training.

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NEWSFRONT
NYSACS

Volume VIII, Edition XXV

JANUARY 1990

FROM THE DESK OF NYSACS PRESIDENT

URGENT!

Dear NYSACS Members and Friends:

In April of 1989, when NYSACS released Answers to Issues, we pointed out that the Bureau of Proprietary School Supervision had not been making regular visits to the schools. Since that time the Bureau has made a concerted effort to increase school contacts. Now it appears that schools and our students will be forced to pay for this increased visit schedule. In their legislative proposals for the coming session of the State Legislature the bureau has proposed new and extremely burdensome costs of doing business in our state.

Specifically the Bureau proposes **$7.2 million** in additional fees on top of the large amounts we already pay for: agents licenses, director licenses and course approvals. By the SED's own figures this $7.2 million increase averages $18,000 additional fees per year, per school. How much will this cost you? **(On one million dollars gross tuition the new fees would total $23,000 annually!!)** This does not even cover the proposed outside independent assessment program.

If you do not already have a copy of the "Brodsky, Sullivan" Bill, A-7517, I suggest you obtain a copy and contact your legislators immediately registering your very strong opposition to the bill. **The very life of your school may be at stake.!**

During the next month decisions will be made that could put your school out of business. A summary of key provisions of the "Brodsky, Sullivan" bill will be sent to every school in a few days. After reading the summary *contact your legislator and register your views*.

If you have any questions please call or write the Association at 212/967-7520, whether you are a member or not.

James G. DiLiberto,
President

NEW YORK STATE ASSOCIATION OF CAREER SCHOOLS
225 W. 34TH STREET - 1701; NY, NY 10122 (212) 967-7520
An Association of New York Career Schools in Postsecondary Education Since 1945

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CHOICE, WITH PRIDE!

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March 7, 1990

BY HAND

John H. Clark, Esq.
Assistant United States Attorney
United States Department of Justice
26 Federal Plaza - Room 3630
New York NY 10278

Re: Statutes in 49 States Excessively Regulating Proprietary Vocational/Technical Schools But Exempting Competing Non-Degree Vocational/Technical Programs of the "Continuing Education" (i.e., Profit-Making) Divisions of Colleges & Universities

Dear Mr. Clark:

I thought you might be interested in the enclosed notice from the Bureau of Proprietary Schools, consisting of a proposed rule to deal with its regulated schools going out of business. It seems, according to the agency, that

> ***"Over the past six months an increasing number of proprietary schools have unexpectedly [sic] closed or gone bankrupt in the State of New York."*** Surprise! Surprise!

The only thing that the guidelines or proposed rules do not say is where the school is going to obtain the money to perform these required business functions. It seems to me that the SED is going to have to convince the Bankruptcy Court that New York's rules have preempted preceding federal rules regarding disposition of a bankrupt's estate. As I have indicated, the excessive, discriminatory state rules regarding proprietary school regulation need to be declared preempted by federal law. Also, the SED is pretending not to know why the schools have gone under. All they have to do is read my complaint or ask the schools which went under. Is this not evidence of intent (of the knowledgeable type)?

Thanks for the material you sent over. I'm looking at it.

Very truly yours,

Carl E. Person, Founder and Director

Encl. - 2/5/90 SED "Procedures for Closing a [Proprietary] School"

NEW YORK
THE STATE OF LEARNING

THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, N.Y. 12234

February 5, 1990

TO: Owners and Directors of Licensed Private Trade and Registered Business Schools

FROM: Joseph P. Frey, Chief
Bureau of Proprietary School Supervision

SUBJECT: Procedures for Closing a School

Over the past six months an increasing number of proprietary schools have unexpectedly closed or gone bankrupt in the State of New York. The result has been that thousands of students have had their educational programs disrupted and the academic records for students that have attended or are attending these schools have been put in jeopardy. Listed below are those regulations which a school is required to adhere to when a school closes.

Also, listed below are the guidelines which the Department has just established on closing a school. At this time, these are the only guidelines recommended by the Bureau of Proprietary School Supervision. However, the Department will move to have these guidelines included in Part 126 of the Commissioner's Regulations. If and when this occurs, these guidelines would then become mandatory.

COMMISSIONER'S REGULATIONS (Mandated)

> 126.11 (b) Student permanent records, compiled at the time of course or curriculum completion, discontinuance or withdrawal, shall be maintained in a single file for each student for a period of not less than 30 years after the student completes the program, and contain the following information:
>
> (1) Name, address, date of birth and gender;
> (2) date of enrollment;
> (3) name of curriculum, course or courses taken;
> (4) record of all final tests and grades earned for each course or curriculum;
> (5) date of completion or discontinuance;
> (6) a notation whether a certificate or diploma was issued and the date issued.

126.11 (c) In the event a school discontinues operation, the school owner or the licensed school director shall transfer all student records, including those permanent records as set forth in subdivision (b) of this section, to the department.

126.11 (d) Schools receiving Federal funds shall maintain records required by the applicable Federal statutes and regulations.

GUIDELINES FOR CLOSING A PROPRIETARY SCHOOL

Listed below are the standard procedures which owners and directors should follow when closing a school:

1. A school should notify the Bureau of Proprietary School Supervision within two (2) days of receipt of notification by any Federal or State agency, or accrediting body that financial aid is being limited, suspended or terminated, or the accreditation is being withdrawn.

2. The owner and director should provide to the Bureau of Proprietary School Supervision, in writing, the notice of school closing, as far in advance of the effective date as possible. One month's notice is the minimum required. All students should be given, in writing, the same advance notice of closing as that given to the Bureau.

3. All recruiting and enrollment activities shall cease and all enrollment agreements for students who have not yet started instruction must be cancelled upon notification to the Bureau that the school is closing.

4. The owner and director shall prepare a written plan for completing the instructional programs of students enrolled prior to the time the decision is made to close the school (Teachout Plan). The plan is subject to review and approval by the Bureau of Proprietary School Supervision. Such a plan should be submitted to the Bureau within ten (10) working days of the school's notification to the Bureau of school closure but prior to the actual school closure.

5. The teachout plan may include the transfer of students to other schools, subject to Bureau approval of arrangements for enrollment, housing, instruction and financial aid, concerning those students. Such a plan shall include refunds to students who elect not to participate in the teachout.

6. Arrangement for transfer of students to another school under the same ownership may be made, subject to approval by the Bureau. Refunds must be made for all students who do not wish to accept such a transfer.

7. **Student** records of all types, as detailed in Section 126.11 of the Regulations of the Commissioner shall be assembled at the school and prepared for shipment to the Department, as directed by Bureau staff. The owner and director shall ship all student records to the Department, at the expense of the school, in accordance with Bureau requirements. However, the student records may be housed at another school under the same ownership at the discretion of the Bureau. These records should include the following information:

   a. Each student transcript must contain the full name of the student and student identification (Social Security number).

   b. Each student record must clearly show the identification of the class, level or group.

   c. Each student record must show the exact title or name, as approved by the Department, of the program in which the student was enrolled.

   d. Each student record must show the current status of the student (active, graduated, leave of absence, withdrawn, or terminated), and the credential awarded (diploma or certificate).

   e. Each student record must show the specific date the student started instruction.

   f. Each student record must show the last day of student attendance and the date the student was graduated, withdrew, or was terminated.

   g. Each student record must show the beginning and ending dates of each school term/quarter the student attended.

   h. Each student record must show the approved course title and instructional hours of each individual course/subject taken; the term/quarter the course subject was taken in; and, where appropriate, the number and level of each subject or course.

   i. Each student record must show the final grade (including failures) or status at the end of the course (withdrew, incomplete, etc.,) for each subject or course taken in each term.

   j. Each student record must show a student's cumulative grade point average (or cumulated grade index) for each term.

k. For leaves of absence, each student record must show the date the leave was started and the date the student returned. In addition, the record must list the last date of actual student attendance if that date is different from the day the leave started.

l. If a student transfers from one program to another, the student record must show the specific date of transfer.

m. For those courses that begin more than five times in one year and are TAP-eligible, the student record should show the beginning and ending dates of each course as well as the status of the course at the end of the TAP-term. Course status refers to whether the course has ended, in which case the final grade should be recorded, or will be continued into the next term.

8. Licenses of the school, the director, teachers and agents shall be returned to the Department on the date the school is closed, except that individual licenses for business school teachers shall be retained by those teachers.

9. Refunds and financial adjustments are the responsibility of the school owner and director, and must be completed for every student within 30 days after the school ceases operation.

10. Academic and financial aid transcripts should be provided to all enrolled students, and completion certificates and diplomas shall be issued as earned and delivered, prior to the closing date.

11. The owner and director must satisfy all Federal requirements concerning financial obligations, record-keeping, and retention and storage of student files and other records. Arrangements shall be made in conjunction with the needs of the State Education Department.

A:USSenat1.Chp

Paralegal Institute
221 W. 41st Street - 6th Flr.
New York NY 10036
(212) 302-2224

Fax (212) 221-8680

October 18, 1989

United States Representative
United States House of Representatives
Washington D.C. 20515

Re: H.R. 3299, Budget Reconciliation Act - Financial Aid & Guaranteed School Performance

BIGGER BANG FOR THE BUCKS !!!

Dear Representative:

The current legislative effort to restrict use of **financial aid** for students who would enroll in **proprietary schools** should be viewed by Congress from a purely budgetary standpoint. When this is done, the proposed restrictions on proprietary school participation would not only be discarded, but the funding for students who would attend proprietary schools would be liberalized (by reducing the minimum number of hours required for a program to qualify, from 300 to 100, for example).

At Paralegal Institute (under the name Word Processing Institute) **we used to teach word processing in 15 hours, with a tuition cost of $250**. One of our students, Kathleen McGrath, took our 15-hour program on the Wang word processor and now is the co-owner (with one partner) of a business grossing almost $2,000,000 per year in word processing and computer consulting (paying annual salaries to programmer-employees of $40,000).

Due to the restrictions Congress has imposed on schools participating in the financial aid programs, only training programs having 300 or 600 hours or more qualify for GSL, SLS and Pell financial-aid programs. Schools have readily obliged by expanding the length of their programs to meet these statutory requirements.

If a school wants to participate in federal aid, Congress says, you must teach more hours and charge more tuition (and require students to pay back more) than is needed. We listened to Congress, and increased the number of hours of our paralegal program from 195 hours (which was all that the field ever needed) to 301 and also to 601 hours, to enable students to obtain financial aid to pay for our (extended) paralegal programs.

Before obtaining financial aid for our paralegal students, our tuition was $1,695 for the 195-hour program. Now that we participate in financial aid, our tuition is $3,295 and climbing.[1]

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[1] Incidentally, the view that some costs levied upon schools would **not** be passed on to students (but would be borne solely by schools themselves) is fuzzy thinking. Our school runs on financial aid, and anything which reduces the amount of financial aid tuition the school receives must be made up through tuition increases. It seems almost irrelevant (except for the number of months it takes for the school to increase its tuition) whether a student is charged a fee directly, or whether the school is required to pay the fee instead. The student necessarily will pay either way. The problem with levies directly against the school (such as a proposed 5% levy to create a reserve for loan defaults) is that the adjustment **takes longer to implement** (through a tuition increase) **and lasts forever** (what school ever reduces its tuition?) affecting more students than the one for whom the fee is being imposed.

About $6 is spent by us for regulatory compliance for every $1 spent for teaching. Surely there must be a better way to run an educational system. This fact goes to the substance of my **novel legislative**

proposal, described in my letter to Senator Jim Jeffords, a copy of which (with accompanying documents) are attached for your information.

In essence, I am proposing that proprietary schools be given the option (in addition to having financial aid for their qualified students) to train and place welfare recipients to take them off of welfare dependency ***at the school's own expense***, with the only money received by the school to be ***paid upon performance*** - such as by proof that the student (certified as eligible by the state or local government) has 6 straight months of significant reduction or total elimination of welfare costs. **Whereupon, the school would be paid its only compensation: an agreed upon percentage of the money it has saved for the welfare authorities on that specific case**, for an agreed upon number of months or years (not exceeding 3 years, for example).

If you think that proprietary schools are "ripoffs" and deserving of loss or reduction of financial aid participation, **the implementation of my novel proposal would be a free-market way of determining the present political issue of the future for proprietary schools**. For legislators (and non-profit institutions) who believe that proprietary schools are a burden on our economy, and that they are unable to produce results efficiently, the implementation of my proposal would be their way of "proving" that proprietary schools do not take persons off welfare and result in subsantial savings in welfare costs (over and above the loan-default costs). On the other hand, if the participating proprietary schools are able to take persons off of welfare, and receive their wholly contingent payment therefor, it could well lead to a voluntary retirement of proprietary schools from the "financial aid" education market to permit them to concentration in the more profitable and less regulated performance-oriented free market for career training and placement..

If I were a Congressperson, I would give proprietary (as well as non-profit) schools the chance to put up or shut up. **My proposal is the ultimate in performance accountability and should be adopted by Congress right away in lieu of further reductions in financial aid participation on the part of proprietary schools.** The non-profit schools and their lobbyists (at public expense) have been misleading you as to the value of proprietary schools in career training, and we (the private school sector) would like to offer you the opportunity to determine proprietary school efficiency for the nation in a **free market environment**.

The extent of regulation of our proprietary schools, including the delays, creates numerous inefficiencies which shackle our educational system and national asset. By creating a free enterprise zone for proprietary schools (as already enjoyed by the non-profits), you would enable us to put more people to work, obtain a higher level of employee, raise overall tax dollars, and educate persons on a "performance" basis, which would allow participating schools (competing among themselves on a price and performance basis) to solve the legislative problem which is presently before Congress - whether financial aid should be cut back (meaning, of course, for proprietary school students). Your answer should be NO. **Financial aid for persons more apt to default (students on welfare) should be converted into 100% pay-for-performance through my novel proposal.** Proprietary schools would jump at the chance, I believe, to base part of their school business on a 100% performance basis, provided that Congress preempts all state and federal regulation of the school other than what is necessary to ensure payment is warranted.

I would welcome the opportunity to elaborate further upon the unwarranted restrictions which are imposed on proprietary schools by the regulatory authorities (such as 3 month delays in obtaining approval of a 3-line classified advertisement), which restrictions limit **our ability to perform the job which we are better able to perform than any other institutions in the United States - the training and job placement of persons on welfare to remove them from the welfare rolls.**

The solution you seek is here, and it is DEREGULATION OF EDUCATION relating to the training and placement of high-risk of loan default, welfare-type students.

Thank you for taking your important time to read this letter.

Very truly yours,

Carl E. Person, Founder and Director of Paralegal Institute for 18 Years; also, a

Board member, NYS Assoc. of Career Schools & Legislative Committee member, ACCET

a:WelfACCE.Chp

Paralegal Institute
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Senator Jim Jeffords
United States Senate
530 Dirksen S.O.B.
Washington, D.C. 20510

Attn: Pam Kruse
Fax 202-224-1507

Re: Education & Welfare Reform Proposal --
to take persons off welfare at the school's own expense

Dear Jim:

The proprietary school sector can do far more than you imagine. With your help, we can take persons off of welfare dependency, and without "financial aid". All we as proprietary schools ask is that we be paid for the job as performed. This is a revolutionary concept, to be paid for performance.

I offered this proposal to New York City in 1974 (see copy of 4/8/74 letter attached) but was told that federal law did not permit a state or local government to use any of the welfare savings to pay for creating such savings, and the proposal was dropped.

During February, 1987, about 1 week before the 50 Governors met with President Reagan (which resulted in approval of the Welfare Reform Act), I made the same proposal in a letter to each Governor. Most Governors responded, all favorably. (See attached copy of 3/20/87 letter from Colorado Governor Romer.)

My idea is simple:

1. Let the state or local government certify the welfare cases who are eligible for the program. This prevents a school from taking only the easy cases. The state or local government would certify only those cases where it would be glad to get rid of the welfare case at any cost.

2. A school would have the option to reject any proposed students without cause being shown (of course, subject to the state and federal laws prohibiting discrimination).

3. The school and state or local government would enter into a contract providing the compensation to be earned by the school, and the standards for payment eligibility (restricted of course by federal statutory or regulatory maximums). The standards, for example, might be:

> (a) that the student have received income or reduced his/her welfare dependency by a minimum of $1,000 per month on the average for a minimum of 6 months;

(b) that the school receive 50% (or 40% or 33-1/3%, e.g.) of the savings which the welfare system enjoys by reason of the change in status of the welfare recipient over a 3-year (or 2-1/3 year or 2-year, e.g.) period, payable monthly within 30 days after proof of entitlement is submitted to the state or local authority.

4. For schools engaged in training under this law, no state or federal laws relating to the regulation of schools or school funding will apply as to the training under this law, but that all laws will continue to apply to the other training being carried out by the school. This would be done by having a provision in the bill which preempted all state regulation of the school (other than fire, safety and health laws administered by other bureaus, I suppose).

5. This new provision is not intended to replace financial aid programs for proprietary and non-profit schools, but should be used in part to evaluate the value of financial aid in the various school sectors where it is being used, and to help schools substantiate (or disprove) their claims that loan defaults are far less costly to the economy than the costs of carrying the "certified" persons on welfare.

6. It is expected that schools which have seating capacity would be able to profit substantially by undertaking to take persons off welfare at the school's own expense, and an added part of their business in addition to teaching students who pay for their courses directly, and students who use financial aid to pay for their courses. At this time, the proprietary school sector of our economy is under substantial attack. For many schools, the attack is wholly unjustified, and in fact counterproductive. This new approach would be a good way of getting at the real facts. So-called "rip off" schools, you would expect, would not be interested in participating. I think you would be most surprised to find a high percentage of proprietary schools in the U.S. interested in this proposal (which itself might suggest that they believe they are doing or can do the right job). I wonder how many non-profit colleges and universities would be interested?

7. The idea is essentially the privatization of welfare and education, permitting maximum freedom for the persons who take the risks to determine for themselves what program they will provide. A lot of flexibility is necessary, I think. Please look at the sample resume (attached hereto), which lists much of the welfare program which I have in place already at Paralegal Institute. The only problem is that with the amount of excessive regulation to which the school has been subject, the program could not get started. The program (before its emasculation) included driver training, counsellors for dealing with students problems outside of class, and speech therapy for needy students.

8. As an additional thought, it should be remembered that the taxes paid by the former welfare recipient over several years should reduce the cost of taking him/her off of welfare.

I would appreciate the opportunity of talking about this proposal for reform of our education and welfare laws.

Sincerely,

Carl E. Person, HLS '62

A:NA_Comp5.Chp

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

89 Civ. 4459
(PKL)

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NEW YORK STATE ASSOCIATION OF CAREER SCHOOLS, CITY TECHNICAL INSTITUTE, ISLAND DRAFTING & TECHNICAL INSTITUTE, MANHATTAN TECHNICAL INSTITUTE, NASSAU SCHOOL FOR MEDICAL AND DENTAL ASSISTANTS, PARALEGAL INSTITUTE and SUFFOLK TECHNICAL INSTITUTE,

Plaintiffs,

COMPLAINT

-against-

STATE EDUCATION DEPARTMENT of the State of New York; BUREAU OF PROPRIETARY SCHOOL SUPERVISION of the SED; JOSEPH P. FREY, Chief, Bureau of Proprietary School Supervision of the SED; JAMES A. KADAMUS, Assistant Commissioner of the SED, Office of Continuing Education; DONALD J. NOLAN, Deputy Commissioner for Higher and Professional Education of the SED; ROBERT J. MAURER, Executive Deputy Commissioner of the SED; and THOMAS SOBOL, Commissioner of the SED and President of the University of the State of New York; with each of the individual defendants being sued in his individual as well as official capacity,

Defendants.

---------------------------------------x

Plaintiffs, for their complaint, respectfully allege:

Jurisdiction

1. The jurisdiction of this court to hear this complaint against defendants is based upon the original jurisdiction of this court under 28 U.S.C. § 1343 to hear an action to "redress

the deprivation, under color of any State law, statute, ordinance, regulation, custom or usage" of the State of New York "of any right, privilege or immunity secured by the Constitution of the United States or by any Act of Congress providing for equal rights of citizens or of all persons within the jurisdiction of the United States". Specifically, this complaint is brought to redress the deprivation of rights, privileges and immunities secured to plaintiffs by:

(a) 1st Amendment to the U.S. Constitution - Freedom of Speech for the benefit of prospective students and school employees; Freedom of Commercial Speech for the plaintiff and member schools and their employees; Right to Petition the Government for a Redress of Grievances; and unconstitutional deprivation of and interference with the right secured by the 1st Amendment and other provisions of the U.S. Constitution for business organizations to provide private job-related education and dissemination of job-related ideas to the public in competition with government owned and other non-profit educational institutions;

(b) 14th Amendment to the U.S. Constitution,§ 1 --

Deprivation of Property without Due Process of Law, both procedural and substantive; and

Denial of Equal Protection of Laws; and

(c) Section 1983 of the Civil Rights Act (42 U.S.C. § 1983), providing equal rights under state and local law for citizens or other persons within the jurisdiction of the United States.

Also, this action is brought as a declaratory judgment action pursuant to 28 U.S.C. § 2201.

Plaintiffs

2. Plaintiff **NEW YORK STATE ASSOCIATION OF CAREER SCHOOLS**, a New York not-for-profit association of proprietary schools in New York State, has its offices at 225 W. 34th Street, New York, New York 10122. Plaintiff's membership consists of approximately 75 occupational (i.e., "licensed trade" or "registered business") schools doing business in New York State and licensed as trade schools under § 5001 or registered as business schools under § 5002 of the New York Education Law. Part of its activities is to give instruction

and guidance to its member school and their employees relating to the rules and regulation governing the schools and their directors, instructors and staff and to assist them in compliance.

3. The schools listed below, each a proprietary school licensed or registered under § 5001 or § 5002 of the New York Education Law, are also plaintiffs in this action:

Name of Plaintiff School	Address	Type	Incorporated
City Technical Institute	70 W. 36th St., New York NY	§5001	New York
Island Drafting & Technical Institute	128 Broadway, Amityville NY	§5001	New York
Manhattan Technical Institute	154 W. 14th St., New York NY	§5001	New York
Nassau School for Medical & Dental Assistants	17 W. 60th St., New York NY	§5001	New York
Paralegal Institute	221 W. 41st St., New York NY	§5001	New York
Suffolk Technical Institute	875 Avenue of Americas, New York NY	§5001	New York

Defendants

4. Defendant STATE EDUCATION DEPARTMENT of the State of New York (the "SED") has its principal place of business at 1 Commerce Plaza, 99 Washington Avenue, Albany, New York 12234 and a place of business at 2 World Trade Center, New York, New York 10047.

5. Defendant BUREAU OF PROPRIETARY SCHOOL SUPERVISION of the SED (the "SED Bureau") has its principal place of business at 1 Commerce Plaza, 99 Washington Avenue, Albany, New York 12234 and a place of business at 2 World Trade Center, New York, New York 10047.

6. Defendant **JOSEPH P. FREY** is the Chief of the SED Bureau and has his principal place of business at 1 Commerce Plaza, 99 Washington Avenue, Albany, New York 12234 and a place of business at 2 World Trade Center, New York, New York 10047.

7. Defendant **JAMES A. KADAMUS**, Assistant Commissioner of the SED, Office of Continuing Education, and as such is responsible for the SED Bureau, and has his principal place of business at 1 Commerce Plaza, 99 Washington Avenue, Albany, New York 12234 and a place of business at 2 World Trade Center, New York, New York 10047.

8. Defendant **DONALD J. NOLAN**, Deputy Commissioner for Higher and Professional Education of the SED, and as such is responsible for the SED Bureau, and has his principal place of business at Cultural Education Center, Empire State Plaza, Albany, New York 12230 and a place of business at 2 World Trade Center, New York, New York 10047.

9. Defendant **ROBERT J. MAURER**, Executive Deputy Commissioner of the SED, and as such is responsible for the SED Bureau, and has his principal place of business at State Education Building, 89 Washington Avenue, Albany, New York 12234 and a place of business at 2 World Trade Center, New York, New York 10047.

10. Defendant **THOMAS SOBOL**, Commissioner of the SED and President of the University of the State of New York, and as such is responsible for the SED Bureau, and has his principal place of business at State Education Building, 89 Washington Avenue, Albany, New York 12234 and a place of business at 2 World Trade Center, New York, New York 10047.

11. Each of the defendants described in paragraphs 6-10 above is sued in an individual capacity as well as in his capacity as an official of New York State, the SED and the SED Bureau.

Background

12. New York State has a variety of schools offering non-degree occupational programs for which the student or student's parent pays tuition or obtains financial aid directly (mainly through U.S. government guaranteed Stafford, SLS or Plus loans or Pell grants) or indirectly (through Joint Training and Partnership Act "JTPA" programs or the new federal

Welfare Reform Act). These schools, in competition with each other for recruiting students to enroll in and attend their respective competing programs, are:

A. Schools licensed under § 5001 or § 5002 of the New York Education law, commonly called "proprietary schools" (numbering approximately 415, with a total of about 250,000 students per year);

B. Universities and 4-year colleges, non-profit and for-profit (numbering approximately 132);

C. 2-year community colleges, non-profit and for-profit (numbering approximately 68);

D. JTPA programs, non-profit or for-profit (number not known);

E. Programs run by religious organizations (number not known);

F. Programs run by other non-profit organizations (number not known); and

G. Programs owned by for-profit corporations and run in the name of universities or 4-year colleges by the for-profit corporation under a tuition-splitting arrangement (several at least).

13. The mission of colleges and universities for many years was to provide a liberal arts or business education leading to a degree. Many students cannot afford, cannot qualify for, or do not desire degree programs and seek specific, shorter occupational training instead. The § 5001-5002 schools and their predecessors for many decades in New York State developed and offered these occupational training programs and structured them to permit, when feasible, students to enroll more frequently than at the beginning of a "semester" or "school year". Colleges and universities saw this demand for pure vocational training as a way to increase their revenues and fill empty seats not being filled by degree students, and began offering competing programs themselves, without any of the regulations or safeguards made applicable to § 5001-5002 schools, which sections give a blanket exemption to schools offering degrees, even as to their short, non-degree occupational programs.

14. The occupational training programs offered by the schools listed in ¶ 12B-G above compete with the occupational training programs offered by the schools listed in ¶ 12A (the § 5001-5002 schools).

15. All of the § 5001-5002 schools located in New York, New York and many of the other § 5001-5002 schools, as well as almost all universities and 4-year colleges in New York State and an unknown number of the other schools offering non-degree vocational programs are engaged in interstate commerce with respect to their degree and/or non-degree occupational program offerings.

16. The § 5001-5002 schools are regulated by a comprehensive set of rules and regulations derived from §§ 5001, *et seq.* of the New York Education law, which specifically or impliedly exempt these other competing schools from such regulation, and the statutes or regulations under which these competing schools are organized do not regulate the programs and marketing of these competing schools in the area in which they compete with § 5001-5002 schools: non-degree occupational programs involving tuition payment or federal financial aid.

17. The procedures followed by the SED Bureau in reviewing and approving (or disapproving) (i) proposed advertising and promotional material and (ii) license applications for persons who talk with, hand out flyers to, show facilities to, or sign enrollment agreements with prospective students (collectively called "private school agents" in §§ 5001-5002) -- involve delays averaging about 5 weeks from the date of filing of the advertising, promotional material or license application if it turns out to be approved, and 10 weeks or more if the advertising or sales material is rejected one time, and 6-7 weeks if the license application for a specific private school agent is approved upon its first submission.

18. These delays mean that a school cannot advertise or solicit prospective students with any of the proposed advertising or promotional material, cannot send out a newsletter containing timely information, cannot send out invitations to a specifically planned open house, and cannot send out correspondence to high schools asking to be invited to provide information to graduating high school seniors at career day gatherings. Also, it means that a school cannot have any advertising or promotion at all for a newly-approved vocational training

program until months after the program is approved, while the school must continue to pay rent on empty classrooms and pay the staff standing by to administer or teach the new program. Also, this means that even when advertising is approved there can be no solicitation or enrollment of students by any human being (even the licensed school director) while their private school agent licensing is awaiting approval and issuance.

19. The effect of these delays is devastating and virtually killing the § 5001-5002 schools, and the SED Bureau's response to the schools is that they do not have enough personnel to handle the volume of work caused by the statutes and regulations they are required to enforce.

20. Upon information and belief, the reason that various schools under § 5001-5002 have gone out of business is in part, at least, the delays described herein. The regulation of businesses by the SED Bureau in the area of advertising, promotion, and agent licensing is a total disaster, with the SED Bureau apparently being totally unaware or unwilling to avoid the obvious dire economic consequences to the school of the SED Bureau's failure to perform its side of the regulatory activities undertaken by it.

21. For every week that a school waits for the issuance of a license to an in-house private school agent (the only persons who under New York law can orally solicit or enroll a new student), the school may lose approximately $25,000 in tuition revenue. Thus, a school waiting 6 weeks for the issuance of a single private school agent's license loses about $150,000 in tuition income.

22. This tuition revenue is needed by the school for curriculum development and improvement, equipment and facilities modernization or supplementation, improvement of placement programs, and development or improvement of programs to ensure compliance with all applicable rules and regulations: federal, state, city, U.S. Office of Education, SED Bureau, FTC, accrediting agency, fire, health, sanitation, building, consumer affairs, handicapped, veterans, drug abuse, and environmental. Schools may well average 30 weeks of waiting per year for private school agent licenses, or a total cost per year of $750,000 per school, which cannot be recovered. The proprietary schools, their students, overall competition suffers and the public suffer their respective injuries as a result.

23. The delays in obtaining approval for advertising copy and promotional material, including newsletters, open house invitations, covering letters, letters to college and university, high school and welfare counsellors and press releases (just to name a few items) involves multi-million dollar losses as to newly-approved programs which take an additional 6 months or more to get started by reason of these delays, and hundreds of thousands of dollars or more as to programs which already have approved advertising and can use the old copy until the new is approved.

24. The overall effect of the delays upon the business of schools licensed or registered under § 5001 or § 5002 is to discourage them from changing and updating their training programs (which could require a massive amount of filings and costly delays to update advertising and promotional copy), deprive each § 5001 and § 5002 school of the tuition income they need to run their school most effectively by providing the best training and placement programs which appropriate tuition funding can provide (but which is not obtained by reason of the delays), and make § 5001-5002 schools less competitive as to the other competing types of schools listed in ¶ 12B-G above.

25. To avoid these delays, all requests for approval of proposed advertising and promotional material and all license applications for private school agents should be effective upon filing with the SED; and the SED Bureau within a reasonable time (say 5 business days) should be required to make any specific objections and work out any advertising copy or agent license application changes it may require. This is a more reasonable and less restrictive way to regulate private school agents, and not deprive them of their freedom to work and freedom to speak with prospective students while waiting for the SED Bureau to get to their license applications.

Summary

26. This action is brought to eliminate as unconstitutional the following statutory and regulatory requirements affecting only for-profit (i.e., "proprietary") trade, technical and business schools in New York State licensed or registered under § 5001 or § 5002 of the New York Education Law:

(i) the prior review and censorship of school advertising and promotional material;

(ii) the prohibition against using non-fraudulent and non-deceptive advertising techniques used by most businesses and advertisers in the United States to attract persons to read, view or listen to an advertisement or promotional material (which the SED Bureau claims is not purely factual or is not relevant to the occupational training being offered -- such as advertising referring to the program benefits or type of persons to be helped rather than the exact title of the program);

(iii) the extensive delays averaging 2-3 months and sometimes exceeding 4 months in obtaining SED Bureau permission to use advertising or promotional materials filed by a school which unnecessarily adds many hundreds of dollars (or even $1,000) to the cost of tuition per student and reduces the ability of such schools to lead in making curriculum improvements and marketing efforts required in the fast-changing recruiting, training and placement markets served by the schools;

(iv) the licensing of school employees and representatives who solicit, speak with or show the school facilities to a prospective student or enter into an enrollment agreement with any prospective student;

(v) the individual bonding of school employees and representatives who solicit, speak with or show the school facilities to a prospective student or enter into an enrollment agreement with any prospective student; or, in the alternative,

(vi) the weeks and months of delay in obtaining approval of the licensing of such school employees and representatives which unnecessarily adds many hundreds of dollars (or even $1,000) to the cost of tuition per student and reduces the ability of such schools to lead in making market-driven curriculum improvements and marketing efforts.

27. These rules sought to be declared unconstitutional are not applicable to the types of schools in New York State (alleged in ¶ 12B-G above) offering non-degree trade, technical and business "certificate" or "continuing education" programs of the same length, using the same marketing methods, in direct competition with § 5001 and § 5002 schools.

COUNT 1

(Denial of Civil Rights - Advertising & Promotional Material Censorship)

28. Plaintiffs allege and reallege each of the allegations in ¶¶ 1-27 above, and further allege that § 5003 of the New York Education Law provides as to "All schools licensed or registered pursuant to [§ 5001 or 5002]" that

> "[i]n every such school the method and content of the advertising, including advertisements by licensed private school agents * * * shall comply with standards for approval set forth in regulations of the commissioner [of Education]."

29. By Regulation effective January 1, 1986, The State Education Department ("SED") and SED Bureau (or "Department" immediately below) directed:

> "1. Advertising
>
> "The law authorizes the Department to require that all advertising, including advertisements by licensed private school agents, be submitted to the Department prior to their being used, and that all advertisements shall comply with standards for approval set by the Commissioner."

30. Subdivision (a) of § 126.3 of the Regulations of the Commissioner of Education was amended, effective January 1, 1987, to read as follows:

> "(a) Statements and representations in all forms of advertising and promotion shall be fairly and clearly presented, accurate and restricted to facts which can be substantiated by evidence available at the school. All forms of advertising and promotion on behalf of schools, whether initiated by schools, certified private school agents, or the employees or agents of a school or certified private school agent, shall identify the schools for which the advertising or promotion was undertaken, and shall be submitted to the State Education Department at least 20 working days before being used."

31. The application of these statutory provisions and regulations by the SED Bureau is arbitrary, unpredictable, and often contrary to the published regulations themselves. The SED Bureau uses unpublished or arbitrary rules, and creates new rules on a near daily basis without formal rule-adopting procedures for rejecting proposed advertising and promotional material in what amounts to a wholly unconstitutional review and censorship process imposed by the SED Bureau.

32. Upon submission of proposed advertising, newsletters, press releases, correspondence or other promotional material to the SED Bureau (in Albany as of January 1,

1989), the SED Bureau reviews the submitted material and, applying arbitrary standards not available to the regulated schools and probably not existing at all, and frequently rejects the proposed material. A copy of a typical rejection form is attached as **Exhibit A**.

33. These activities by defendants amount to an unlawful censorship and prior restraint, and deprive prospective students in New York State and in other states and their advisors of valuable information about career training in New York State.

34. The general New York State laws prohibiting fraud together with appropriate enforcement by the SED, and a requirement of filing of advertising and specific types of promotional material for review after use, would be sufficient to deal with any fraudulent advertising or promotion by schools or their agents, and it is unreasonable to require school advertising and promotional materials for § 5001 and § 5002 schools to be censored, prohibited and changed prior to use.

35. The interest of New York State could be achieved by less restrictive means, such as by requiring the filing of advertising and specified types of promotional material with the SED Bureau upon first use, at which time the SED Bureau would have a reasonable time (such as 5 business days) to review the submission and either (i) approve the filing without needing to advise the school; or (ii) advise the school by fax, telephone or letter that the filed advertisement requires corrective action, including if appropriate the need to inform all student enrollees after a certain date that certain representations were or may be false and that such enrollees have the right to withdraw from the school and receive a 100% refund of any tuition paid or total cancellation of any financial aid applications. In New York State, any student of a § 5001 or § 5002 school has the right in any event to withdraw with a 100% refund and cancellation of financial aid obligations prior to the start of attendance and (as to the vast majority of their training programs) during the first week of class. Because of this ability to totally undo the effects of any "fraudulent" advertising, there is no need for the existing system of prior restraint and prior censorship. A more reasonable and less restrictive regulatory method exists for accomplishing the same results without depriving schools and prospective students of their rights to free speech.

36. The regulations governing advertising and promotional material are construed by defendants to require § 5001 and § 5002 schools to submit to the SED censor ("Advertising Review Unit" of the SED Bureau) all advertising and promotional material (including newsletters, press releases, and letters to high school, college and university career and placement offices) for prior review and approval (if obtainable) before use.

37. There is no comparable rule for any of the other types of schools offering competing programs listed in ¶ 12B-G above.

38. The New York statute giving defendants the statutory authority to regulate proprietary school advertising, § 5003 of the New York Education Law, was enacted in 1972 to replace older legislation, and school advertising was then (as before) required to be filed and approved before use, prior to the Supreme Court's series of decisions starting with the Viriginia State Board of Pharmacy v. Virginia Citizen's Consumer Council, Inc., 425 U.S. 748 (1976) expanding the First Amendment to include substantial protection under the 1st and 14th Amendments for "commercial speech" and the public's related right to receive valuable commercial information.

39. Effective January 1, 1989, all proprietary school advertising for all 415 schools for the first time had to be submitted to a single censorship unit ("Advertising Review Unit") in Albany, at which time the delays started to accelerate and the arbitrariness and uncontrolled rule-making became uniform for all schools and obvious.

40. Prior to January 1, 1989, advertising was reviewed by the individual "associates" in the Manhattan and Albany offices of the SED Bureau in New York State who were assigned to work with the specific school, and the delays in obtaining approval varied from immediate to delayed, depending on the associate and the associate's workload and availability, and whether the school requested immediate review. The associate tended to review proposed submissions with far fewer rejections and with greater speed when requested.

41. Since January 1, 1989, however, all advertising and promotional review (other than catalogs) was centralized in the Albany office of the SED Bureau (in a newly constituted "Advertising Review Unit"), and within a period of about two months delays began to reach 5-6

weeks or longer with a very high percentage of submitted material returned for correction and refiling with another 5-6 weeks or more of waiting required, with no priority given at all for schools requiring immediate review. This means that as of the filing of this complaint, it takes proprietary schools in New York State anywhere from 5-6 weeks to 12 weeks or longer to obtain approval of proposed correspondence, newsletters, press releases, advertisements, TV and radio commercial copy, and other promotional material before they may use it.

42. Proprietary schools with new programs to describe and advertise cannot survive if they have to wait this long for the right to test copy or solicit students, especially in competition with these other categories of schools offering the same program which are permitted by New York law to run advertising, use promotional material, mail newsletters and do anything else (broadcast or print) without having to wait for any prior approval, amd without having to obtain any subsequent approval either.

43. The present law and regulations under §§ 5001, *et seq.* of the New York Education Law regulating school advertising are unconstitutional in themselves and as applied by defendants.

44. The effect of this restraint and prior restraint upon proprietary schools is to

(i) substantially decrease the incentive for a school to change its curriculum or add any new programs because of the need to wait for perhaps a quarter year to obtain approval of the new copy and perhaps be unable to use the old copy (which may no longer accurately describe an obsolete program);

(ii) reduce the average tuition income of each of the proprietary schools in the amount of hundreds of thousands of dollars on the average because of their inability to market their programs during the period they wait for the required approvals;

(iii) unnecessarily consume the time of top management of the school in preparing, reviewing, transmitting, waiting, revising, re-transmitting and re-waiting relating to the licensing of advertising copy and sales promotional material when the time should be available for development of more effective training and placement programs, the primary feature of proprietary schools which are structured to develop programs more quickly than most if not all of the other types of schools; and

(iv) substitute the limited knowledge and experience of the single SED censor (with no apparent prior business, marketing, advertising or school experience) for the substantial knowledge and experience of the 415 proprietary school directors, and prevent accurate information or full disclosure about an existing or new program from being disseminated to the public.

45. Each of the members of the plaintiff association and each of the plaintiff schools is being injured by reason of the foregoing, and is suffering from irreparable injury.

46. The activities of the defendants as alleged above are unconstitutional for each of the following reasons:

(a) Unreasonable prior restraint of the school's freedom of commercial speech and the right of prospective students among the public to obtain valuable commercial information relating to education, job and job training opportunities;

(b) Overly restrictive regulation of commercial speech when a less restrictive regulatory method (such as alleged above) would be entirely if not more adequate;

(c) Vagueness to regulate all "promotional" materials without specifying what types and to whom such promotional materials must be directed;

(d) Abridgment of the right to petition the government for a redress of grievances (as to the required promotional approvals to solicit government agencies to refer students to §§ 5001-5002 schools);

(e) Taking of the school's property without due process of law; and

(f) Denial of equal protection of law because competing (non-degree) programs offered by the other types of schools in New York (alleged above) are not subject to the same restrictions.

47. Defendants are acting illegally and in violation of § 1983 of the Civil Rights Act (42 U.S.C. § 1983) by their enforcement of these statutory provisions and their promulgation and enforcement of these rules.

48. Each of the plaintiffs (including members of the plaintiff association) has been injured and continues to be injured, and each has suffered and continues to suffer irreparable injury, by the activities of defendants.

COUNT 2

(Denial of Civil Rights - Bonding of Recruiting Personnel Required Only for Occupational Schools Licensed under § 5001 or § 5002)

49. Plaintiffs allege and reallege each of the allegations in ¶¶ 1-27 above, and further allege that § 5004 of the New York Education Law and § 126.12 of Regulations of the Commissioner of Education of the State of New York require that all paid employees and representatives of a § 5001 or § 5002 school who procure, solicit or enroll students must themselves, individually, obtain a $1,000 surety bond against which an enrolled student could seek payment if the licensed agent "procur[ed] such student's enrollment" "as a result of any fraud or misrepresentation".

50. Section 5004 provides in part:

> 1. No person may, for a consideration or remuneration, procure, solicit or enroll any student for instruction in or given by any school within or without the state of New York, unless said person shall have previously secured a private school agent's certificate from the department pursuant to regulations of the commissioner. In promulgating regulations in relation to the issuance of such certificates and the conduct of the holders of such certificates, the commissioner shall give consideration to:
>
> a. good moral character of the candidate for such certificate;
>
> b. the use of ethical and fair practices in the presentation of the school's offerings;
>
> 2. Instruction, as contemplated by this sectdion, shall be any plan or method for teaching any subject or subjects in any form or manner, including correspondence or home study.

> 3. Exempted from the requirements of this section are persons acting solely for schools which are not required to be licensed or are specifically exempted from the licensing or registration requirements of this article. Persons who are paid to procure, solicit or enroll students on the premises of schools required to be licensed or registered shall not be exempt from the provisions of this section. * * *
>
> 4. Application and renewal application for a private school agent's certificate shall be filed on forms to be prescribed and provided by the commissioner. Said certificate shall be valid for two years from the date of issuance. Every applicant and renewal applicant shall pay to the department a fee of one hundred dollars. The commissioner may require that such person or the school he represents furnish and keep in force a surety bond acceptable to the commissioner in such amount as he directs conditioned to provide indemnification to any student suffering loss as a result of any fraud or misrepresentation used in procuring his enrollment or as a result of any violation of this section or regulations of the commissioner. * * *
>
> 5. No recovery shall be had against any student or enrollee and full recovery shall be made on any contract for or in connection with any instruction if the student or enrollee was procured, solicited or enrolled outside or on the school premises by a person paid to procure, solicit or enroll students but not having a valid private school agent's certificate pursuant to the provisions of this section at the time that the contract was negotiated or executed or the sale of the instruction was made, or by a person who holds such a certificate but has made fraudulent or improper claims. Each enrollment agreement shall include, where applicable the name of the agent responsible for procuring, soliciting or enrolling the student or enrollee. * * *

* * *

51. Section 126.12 of Regulations of the Commissioner of Education of the State of New York provides as follows:

> Private school agent's certificate.
>
> (a) Any person who receives any form of compensation or remuneration from any representative, employee, or officer of a licensed private school or registered business school for the purpose of soliciting, procuring, or enrolling students is required to hold a valid private school agent's certificate * * *.
>
> (b) Application for a certificate shall be made on forms furnished by the commissioner [a copy of which is annexed hereto as **Exhibit B**]. It may be made only by the school or schools which the agent is to represent. If an agent represents more than one school, each school or a common ownership of more than one school must apply for a certificate. If the school employs more than one agent, a separate application must be filed for each agent. The application shall request such information as the commissioner may require, including information about whether the applicant has ever been convicted of a crime or whether criminal charges are now pending. The application must be accompanied by: two full-face photographs which are a good likeness of the applicant and are one inch by one inch in dimension; certification by two persons other than employers or coworkers attesting to the good moral

> character of the applicant; and a nonrefundable $100 check or money order payable to the Education Department and a surety bond in the amount of at least $1,000 for each agent. A school may substitute a blanket bond for more than one agent at the rate of $1,000 per agent. In making application for an agent's certificate, the school shall certify that through the medium of sales manuals, bulletins or other similar means, the agent is fully informed as to its courses, services, charges, enrollment conditions and operating policies, including the refund policy. The school must further certify that it assumes full responsibility for the actions, statements and conduct of its agent, acting in its behalf, and that it uses an acceptable plan for the selection, training and supervision of the agent.
>
> c. Application for the renewal of an agent's certificate shall be filed no later than 60 days before the expiration of the current annual certificate. It shall be accompanied by a $100 check or money order payable to the Education Department, a renewed surety bond, if a continuing bond is not in effect, and two new photographs as described in subdivision (b) of this section.
>
> (d) In the event of the dismissal or resignation of an agent, the school shall notify the commissioner in writing within 10 days thereof. The agent's certificate shall be returned with such notification.
>
> (e) Agents shall not identify themselves or be identified as counselors or by other titles which mislead or tend to mislead the prospective student.

52. The term "private school agent" as used in the statute and regulations quoted above and as construed by the defendants includes but is not limited to the following categories of persons:

A. Employees of the 5001-5002 school, including

(i) in-school representatives who meet face-to-face with prospective students, give them information about the programs, answer questions, give job opportunity information and encourage them to execute an enrollment agreement;

(ii) telephone operators or any miscellaneous employees picking up the telephone in a regular operator's absence who give program information or tuition amounts or starting dates over the telephone;

(iii) receptionists who hand out program pamphlets or other literature, give tuition amounts or starting dates or job opportunity information in person upon request - see p. 7 of "Questions & Answers ... A Handbook for Private Vocational Schools, January 1987" published by the SED Bureau ("the 1987 Handbook") "If they go beyond providing very general information, to providing detailed descriptions of the programs and opportunities available at the school....";

(iv) the licensed director of the school and one or more assistant directors who may have direct contact with the prospective student and provide information about the school or its programs or the field in question;

(v) licensed teachers of the school who are giving instruction to students and discussing aspects of the field while a prospective enrollee is sitting in on the class;

(vi) parttime or fulltime persons who distribute flyers to prospective students or others on the streets, or place flyers on doorknobs, in retail stores or on automobiles - see p. 6 of the 1987 Handbook: "Q. Does this regulation require that individuals hired simply to hand out flyers need to be certified as agents? A. Yes. Q. Can a certified agent hire other individuals to hand out pamphlets...? A. No. These so-called "sub-agents" would need to be certified agents."

(vii) parttime or fulltime persons who make cold telephone calls to try to obtain the names, addresses and telephone numbers of persons who may be interested in learning more about the school;

(viii) person who operates any computerized telephone solicitation system;

(ix) "800" telephone operator in a major answering service "standing by" to answer responses from radio or television advertising occurring at any time 24 hours a day;

(x) person who administers any entrance test required as a condition to enrolling a student; and

(xi) person who shows visitors the school's facilities while waiting for an appointment to see an in-school representative;

B. In-school director, instructors and other employees of the § 5001-5002 school listed in ¶ "A" above who discuss the school while outside the school and thereby encourage persons to inquire further about the school or its programs;

C. Outside employees or agents of the school who are paid through salary and/or referral fee or referral commission to locate persons who may be interested in attending or learning more about the school or its programs, ordinarily amounting to a referral of the prospective student's name, address and telephone number to the school and then an in-school admissions representative for additional information and possible enrollment; and

D. current or former students who receive any discount or rebate in their tuition or any monetary payment or even property exceeding $25 in value upon referring a student to the school (§ 5004-3 specifically exempting students and graduates getting non-money consideration of less than $25 in value).

53. By reason of the broad scope of these statutes and regulations defining "private school agents", 5001-5002 schools are unsure which of their in-house employees are required to be bonded and licensed as private school agents, recognizing the possibility that most school employees at one time or another fall into the mandatory licensing category. By letter dated October 1986 (¶ 5, "Certificates for Private School Agents"), the SED Bureau stated to all 5001-5002 schools that:

> "Schools must identify those persons working in-house who in any way could be construed as participating in the procurement, solicitation or enrollment of students and request [private school agent] certificates for such students. Staff who are not certified, but who might inadvertently encourage enrollment at a school, should be instructed to refer all matters dealing with procurement, solicitation or enrollment to certified agents."

54. By reason of this broad definition of "private school agent", with the requirements of the $1,000 bond for each covered person and the prior licensing at $100 each, plus other costs both monetary and administrative, § 5001-5002 schools are unable to lawfully provide information to prospective students through normal business channels and must funnel all information through licensed and bonded "private school agents". Any failure to use a licensed agent requires the school to refund 100% of the student's tuition, even if he has completed the program, obtained a job, and has made no request for and does not seek any refund.

55. Persons who are "soliciting, procuring, or enrolling students" in the same way for any of the other types of competing schools listed in § 12B-G above are not required to have any type of surety or other bond as a condition to their employment.

56. The process of obtaining a $1,000 surety bond is costly, cumbersome, and time-consuming for top management of the licensed or registered school, requiring most § 5001-5002 schools to post $1,000 in security with a bank to obtain a letter of credit, pay the bank a fee of approximately $200 for issuance of the letter of credit; pay a quarterly fee of about $20 to continue the letter of credit (forever); make out an application to a bonding company for issuance of a bond backed by the letter of credit; pay a $100 fee to the bonding company for issuance of the blanket bond; pay a $100 per year renewal of the blanket bond annually; and go through significant paperwork keeping track of what "private school agents" are assigned to which bonds; and to identify to the SED Bureau which blanket bond is applicable to each new "private school agent" hired by the school.

57. Thus, for a§ 5001-5002 school to hire a retired school teacher on a part-time basis to solicit enrollments for the school (such as by going to high school career day events at a specific high school), the § 5001-5002 school is obliged to post the same $1,000 surety bond as is required of a full-time person. Also, if the § 5001-5002 school wants to put on 10 part-time private school agents during a busy season, or to take advantage of seasonal employee availability (summer job program, for example), the § 5001-5002 school has to put up $10,000 in cash plus all the other expenses involved in hiring additional private school agents. If a § 5001-5002 school has 20 persons falling into the "private school agent" category, the $1,000 surety bond require costs the school $20,000 in posted security; $4,000 for letter of credit issuance; $1,000 per year in bank fees for renewing the letter of credit; $2,000 per year in SED Bureau license fees; $2,000 per year in fees payable to the bonding company -- for a total of $24,000 initial and approximately $5,000 in annual fees forever, together with the value of top management time in handling and keeping track of these repetitive financial and licensing transactions. The effect is to divert a § 5001-5002 school away from its intended training and placement role into an organization designed to administer and keep track of these financial and licensing transactions and others referred to in this complaint required by statute and regulation to lawfully run a § 5001-5002 school.

58. No other school in New York State has to meet these requirements.

59. The effect is to put § 5001-5002 schools at a severe competitive disadvantage with all of the other types of competing schools listed in ¶ 12B-G above, which schools are not required to and do not post a surety or other type of bond for any of their employees, agents or representatives who do any of the things listed in ¶ 52A-D above to solicit prospective students for any of these competing schools.

60. All of the members of the plaintiff association, all of the plaintiff schools, and the public consisting of all prospective students are being injured by reason of the foregoing, and are suffering from irreparable injury.

61. The activities of the defendants as alleged above are unconstitutional and the statute and regulations requiring performance bonds for "private school agents" (as defined) for § 5001-5002 schools are unconstitutional, for each of the following reasons:

(a) Taking of the school's property without due process of law;

(b) Denial of equal protection of law because competing (non-degree) programs offered by the other types of schools in New York are not subject to the same bonding requirements for the persons who procure, solicit or enroll students in their competing programs; and

(c) Unreasonable and overly-restrictive restraint of the § 5001-5002 school's freedom of commercial speech, the private school agent's (as defined) right to freedom of speech or freedom of commercial speech, and the right of the public including prospective students to obtain valuable commercial information relating to education and job opportunities.

62. Defendants are acting illegally and in violation of § 1983 of the Civil Rights Act (42 U.S.C. § 1983) by their enforcement of these statutes and regulations.

COUNT 3

(Denial of Civil Rights - Certification or Licensing of "Private School Agents" as Defined Required Only for Occupational Schools Licensed under § 5001 or § 5002)

63. Plaintiffs allege and reallege each of the allegations in ¶¶ 1-62 above, and further allege that § 5004 of the New York Education Law and § 126.12 of Regulations of the

Commissioner of Education of the State of New York require that all paid employees and representatives of a § 5001 or § 5002 school who procure, solicit or enroll students must themselves, individually, obtain a "private school agent's certificate" or license. A copy of the SED Bureau's "Original Or Renewal Application for a Private School Agent's Certificate" is annexed hereto as **Exhibit B**. No testing or minimum educational requirements are involved. The license application merely asks whether a prior school certificate issued by another state has ever been revoked, suspended or denied, together with an explanation, and requires 2 photographs and 2 signed references attesting to good character of the applicant.

64. The certificate is for a 2-year period, and must be reissued (with a new fee and new 2-year period) each time the "private school agent" changes § 5001-5002 schools or adds any new schools to his/her list of § 5001-5002 schools for which he/she is a "private school agent". A $1,000 bond is required for each new school, and a $100 fee is paid to obtain the new certificate.

65. The certificate is required as a condition for the private school agent or the 5001-5002 school itself to solicit or enroll any students (required to be done through a specific certified "private school agent"), and failure to have such an occupational certificate or license results in the school's being required to refund 100% of the tuition paid by the student, even though the student has completed the program, has obtained employment and does not seek or request any such refund. § 1004, New York Education Law and § 126.12 of the Regulations of the Commissioner of Education and interpretations issued thereunder.

66. The process of obtaining a private school agent certificate or license is costly, cumbersome, and time-consuming for top management of the school, requiring a $1,000 bond (see preceding count), the completion of the "Original or Renewal Application for a Private School Agent's Certificate" (Exhibit B hereto) by the prospective employee of the § 5001-5002 school each time he/she changes school employers (and 2 references), and involves substantial losses of money for the school and unemployment for the "private school agent" during the time that the certification or licensing procedure takes place. Recruiting and enrollment of students ceases at the in-school office or desk occupied by a "private school agent" while he or she is

being replaced unless the § 5001-5002 school has more than an adequate number of already-licensed "private school agents" standing by until they are needed (which is not feasible).

67. Thus, for a school to hire a retired school teacher on a part-time basis to recruit for the school, the school is obliged to obtain the same certificate or license and post the same $1,000 performance bond as is required of a full-time person. Also, if the school wants to put on 10 part-time "private school agents" as defined during a busy season, or to take advantage of seasonal employee availability (summer job program, for example), the school has to put up $10,000 in cash plus all the other expenses involved in hiring additional recruiters, including the required private school agent's certificate.

68. The New York Education Law and Regulations referred to above also require that all "private school agents" as defined of a § 5001 or § 5002 school must be licensed specifically to any § 5001-5002 school which uses the "private school agent". Defendants' 1987 Handbook states at p. 7: "Q: If an agent represents more than one school, must that agent be certified and bonded by each school that he or she represents? A: Yes."

69. This means that a person already bonded and certified or licensed as a private school agent must obtain a new certificate or license each time he/she changes § 5001-5002 schools or wants to work for one or more additional § 5001-5002 schools. This is similar to a licensed doctor or lawyer having to apply for a new license each time a new client or patient comes in to the office, before the lawyer or doctor is permitted to counsel or treat the new patient or client. Rather than the doctor or lawyer being licensed, the relationship is being licensed, which is an overly-broad and unnecessary restriction.

70. Persons (i.e., "private school agents") who procure, solicit or enroll students for any of the other types of competing schools listed in ¶ 12B-G above are not required to have a "private school agent's certificate" or any type of certificate or license as a condition to their employment or their solicitation or enrolling of students for any schools in New York State competing with § 5001-5002 schools or for the specific schools for which they solicit or enroll students. Instead, they are permitted to solicit and enroll students without bond, certificate or license for any number of schools (other than § 5001-5002 schools, of course).

71. The effect is to put § 5001-5002 schools at a severe competitive disadvantage with all of the other types of competing schools listed in ¶ 12B-G above, which schools are not required as a condition of employment to obtain a certificate or license for any of its personnel performing any of the tasks of "private school agents" for § 5001-5002 schools as outlined in ¶ 52A-D above, or obtain a specific school license for already-certified "private school agents". Instead, these competing schools are required to have no licenses or certificates at all for any of their employees or agents who perform any of the functions of "private school agents" as defined.

72. All of the members of the plaintiff association, all of the plaintiff schools, and the public consisting of all prospective students are being injured by reason of the foregoing, and are suffering from irreparable injury.

73. The activities of the defendants as alleged above are unconstitutional and the statute and regulations requiring certificates or licenses for "private school agents" (as defined) for § 5001-5002 schools, and requiring new certificates for already-licensed private school agents, are unconstitutional, for each of the following reasons:

(a) Taking of the school's property without due process of law;

(b) Denial of equal protection of law because competing (non-degree) programs offered by the other types of schools in New York are not subject to the same restrictions; and

(c) Unreasonable and overly-restrictive restraint of the § 5001-5002 school's freedom of commercial speech, the private school agent's (as defined) right to freedom of speech or freedom of commercial speech, and the right of the public including prospective students to obtain valuable commercial information relating to education and job opportunities.

74. Defendants are acting illegally and in violation of § 1983 of the Civil Rights Act (42 U.S.C. § 1983) by their enforcement of these statutes and regulations.

COUNT 4

(Action for a Declaratory Judgment)

75. Plaintiff repeats and realleges each of the allegations contained in ¶¶ 1-74 above, and further alleges that this count is an action for a declaratory judgment pursuant to 28

U.S.C. § 2201, for the purpose of determining a question of actual controversy between the parties as more fully appears from the allegations set forth above.

PRAYER

WHEREFORE, plaintiffs pray:

1. That the activities of defendants be adjudged and decreed to be in violation of § 1983 of the Civil Rights Act (42 U.S.C. § 1983).

2. That the statutory provisions and regulations requiring (i) prior approval of proposed advertising and promotional material, (ii) bonding of employees, agents and representatives who procure, solicit or enroll students ("private school agents" as defined), (iii) certification or licensing of private school agents, as defined, (iv) re-certification or re-licensing of already-certified or already-licensed private school agents as defined to specific schools, and (v) effectiveness of applications for advertising approval and private school agent certification or licensing delayed beyond the receipt of such applications by the SED be adjudged and decreed to be in violation of § 1983 of the Civil Rights Act (42 U.S.C. § 1983).

3. That the statutory provisions and regulations requiring (i) prior approval of proposed advertising and promotional material, (ii) bonding of private school agents as defined, (iii) certification or licensing of private school agents as defined, (iv) re-certification or re-licensing of already-certified or already-licensed private school agents as defined to specific schools, and (v) effectiveness of applications for approval of proposed advertising or promotional material or private school agent certification or licensing delayed beyond the receipt of such applications by the SED be declared repugnant to the United States Constitution and Amendments thereto.

4. That each of the defendants, their respective agents, attorneys, officials and employees and all persons combining with or acting in concert with any of the defendants or under their direction be permanently restrained and enjoined from enforcing of the statutory provisions and regulations requiring (i) prior approval of proposed advertising or promotional material, (ii) bonding of private school agents as defined, (iii) certification or licensing of private school agents as defined, (iv) re-certification or re-licensing of already-certified or

already-licensed private school agents as defined to specific schools, and (v) effectiveness of applications for advertising or promotional material approval and "private school agent" certificates or licensing delayed beyond the receipt of such applications by the SED Bureau.

5. That a judgment be granted against each of the defendants under 28 U.S.C. § 2201 declaring that these statutory provisions and regulations referred to or described in the preceding paragraphs 2-4 are unconstitutional and unenforceable.

6. That each of the defendants and their employees, agents and attorneys be enjoined from taking any action against any of the plaintiffs as reprisal for their attempts to enforce their civil rights hereunder, any such reprisals being unlawful under Title 42 U.S.C. §§ 1985 and 1995.

7. That all outstanding bonds and blanket bonds for private school agents as defined be declared void and unenforceable as to the obligees referred to therein or, in the alternative, that defendants be substituted in such bonds and blanket bonds as the principals in the place and stead of the specific plaintiff school.

8. That attorneys' fees and costs be assessed against each of the defendants pursuant to 42 U.S.C. § 1988 and such other provisions of law as may apply.

9. That plaintiff have such other and further relief as this Court may deem just and equitable.

Jury Demand

PLEASE TAKE NOTICE that, pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, plaintiffs DEMAND A TRIAL BY JURY of all issues triable by right by a jury.

Dated: New York, New York
June 26, 1989

CARL E. PERSON

By
Daniel A. Fried
Attorney for Plaintiffs
Office & P.O. Address:
221 West 41st Street
New York, New York 10036
Tel. (212) 302-3341

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Bureau of Proprietary School Supervision
One Commerce Plaza - Suite 1613
99 Washington Avenue
Albany, NY 12234

School Name: ____________________ Date: ____________

Director: ______________________________

The following action has been taken in regards to the advertisement submitted:

____ 1. Enclosed is the final approval of your advertisement. This copy is returned for your records.

____ 2. The enclosed advertisement is approved to print with corrections. Please make the necessary corrections and resubmit three (3) copies for final approval.

____ 3. Three (3) copies of proposed advertisement must be submitted by the director of the school.

____ 4. The enclosed ad does not comply with current advertising standards/guidelines and cannot be approved. This ad cannot be used until corrected, reviewed and approved by this unit.

____ 5. ____

____

____

____

____.

Please note: No advertisement may appear in the "Help Wanted" or "Employment" area of the newspaper/media. Any change to existing advertising and/or all new advertising must be submitted for approval.

PENGAD-Bayonne, N.J.
EXHIBIT
A

Original ☐
Renewal ☐

Bureau for Proprietary School Supervision
One Commerce Plaza
Albany, New York 12234

ORIGINAL OR RENEWAL APPLICATION FOR A PRIVATE SCHOOL AGENT'S CERTIFICATE

Application is hereby made for an agent's certificate to solicit students under the provisions of the New York State Education Law, Section 5004.

____
Date

(Please Print or Type)

Social Security # __________

1. Name ______________________________ Telephone # __________

2. Home Address ______________________________
Street City State Zip

3. Business Address ______________________________
Street City State Zip

4. List the names of the school or schools with a common ownership to be represented.

5. List the names and addresses of any other schools for which you solicited students and the state or states in which you represented these schools.

6. Have you ever had a school agent's certificate issued by another state revoked, suspended or denied? No _____ Yes _____
If "yes", explain

7. ______________________________
Blanket Surety Bond # Name of Company Date Issued Date Expires Amount
Individual Surety Bond #

APPLICANT'S CERTIFICATION

8. I hereby certify that I have read the Rules and Regulations of the Commissioner of Education, and that I will act in accordance with and abide by the provisions thereof; that my representations to prospective students shall be free from misrepresentation and fraud, and that I will provide such information as may be required by the Commissioner of Education concerning my activities as an agent within the State of New York.

9. If I cease to represent the above school or schools, I will return my agent's certificate immediately to the New York State Education Department, Bureau of Proprietary School Supervision.

EXHIBIT
B

____
Applicant's Signature

REFERENCES CERTIFICATION

10. I hereby certify that the person named in this application, to the best of my knowledge and belief, is ethical and of good moral character and further, that I am not the applicant's employer or co-worker.

Name____________________	Name____________________
Address__________________	Address__________________
City____________________	City____________________
State__________ Zip______	State__________ Zip______
Telephone________________	Telephone________________
______________________ Signature	______________________ Signature

SCHOOL CERTIFICATION

11. I hereby certify that the foregoing statements are true to the best of my knowledge and belief. The applicant is qualified to be an agent of this school and has been fully informed of all school policies, practices and offerings.

School Name____________________ Signature____________________

Address____________________ Name____________________

__________________________ Title of Position____________________

(President/Owner/Director)

INSTRUCTIONS

12. The school owner or director should file this application with the New York State Education Department, Bureau of Adult Program Supervision, One Commerce Plaza, Albany, New York 12234.

1. A one hundred dollar certified check or money order payable to the State Education Department.
2. Two recent photographs which are one inch by one inch and a good likeness of the applicant which will be included on the agent's certificate for identification purposes.
3. An original individual bond as described in Item 7 or original blanket bond covering all agents must be on file with the Education Department.

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 20.

Common Sense and Stafford Loan Defaults

By: Dr. David Stockham
Director University of Kentucky

For over two decades the magic of Stafford Loans has been government guarantees that channel billions of private sector dollars to students and higher education. This year, an annual cost of 1.8 billion dollars for defaulted loans threatens the existence of this program. Members of the financial aid community need to campaign for the proper use of Stafford Loans before frustrated lawmakers pass a death sentence on this needed form of assistance for students and families.

The Secretary of Education is to be applauded for initiating steps to deny loans to students attending schools and colleges with outlandish default rates. Stopping unscrupulous institutions that add the burden of revolving debit to the disappointment of the revolving door is essential, but this effort, plus entrance interviews, placement statistics, and tightened administration, will not resolve the default problem.

THE PROBLEM - It does not make good sense to certify loans for students who have low probability for educational success and who are consequently strong candidates for subsequent default. These students can be identified before loans are approved. A recent study by the Government Accounting Office, which echoes other research, reports that defaulters tend to be students who are: low income, attending vocational schools rather than traditional colleges, independent rather than dependent on their families, and stay in school for one year or less. In brief, defaulters are high-risk students. Deny them loans and the default rate will decline dramatically.

Keeping high-risk students out of education is not an acceptable answer. Our country is caught in a dilemma between the evil of default and the individual and social good that comes from helping people become more productive and self-reliant. Even setting humanitarian arguments aside, there are compelling economic reasons why high-risk students need to be given a chance to use education as a social and economic elevator.

THE CHALLENGE - Our aging population requires more productive workers, and American capitalism needs a more highly trained workforce to compete in the global economy of the twenty-first century. High-risk students in the American underclass need to be cultivated as a resource rather than maintained as a liability. Whenever a high-risk student avoids or escapes the ranks of those cared for at government expense through welfare, subsidized housing, public health care, or prison, there is a double benefit -- one less person to support from tax dollars and one more producer to contribute to the public treasury.

The poor and unskilled are not necessarily responsible for their circumstances. Many who are high risk are not stupid or lazy. Even with good motivation, it is possible to be trapped by bad luck or economic conditions where it is impossible to scrape together a living and still have the means to break the cycle of dependence. Staking students to a chance at learning past high school is speculating in human potential.

In any form of speculation, failures are to be expected. A good number of high-risk students for whom educational investments are made will not succeed, but if only one-third graduate, society profits in the form of persons who pay rather than use a lifetime of taxes. Stafford loans make poor venture capital for high-risk students and adding academic standards to eligibility criteria can reduce defaults and preserve the valuable public-private marriage on which Stafford Loans are based. This can be accomplished by replacing Stafford Loans with grants during the initial enrollment of high-risk students, and with the exception of first-year students who are not high-risk, approving Stafford Loans only for those who have earned a "C" average by the end of their first year of school. The cost of increasing grants for high-risk students can be contained by limiting the time during which other aid would replace guaranteed loans. Allowing three loan-free semesters for four-year colleges and two semesters for students at two-year institutions is one possibility. Doing away with ability to benefit provisions would also hold costs in check. Requiring institutions that admit students with learning deficits to provide mandatory remedial courses also can curb defaults.

THE MONEY - Reduced defaults will release future funds for "start-up" grants for high-risk students. Other sources of money might include: legislating larger Pell Grants for high-risk students, designating Supplemental Educational Opportunity Grants for this purpose, requiring each school and college to provide one $1,000 high-risk award for every $100,000 in Pell Grants awarded to their students, and offering special incentive grants to institutions that show success graduating those who are high-risk.

The concept of government-guaranteed loans is valid. For want of a better alternative, they have been pressed into service for students for whom they are not appropriate. Experience with excessive defaults indicates that all kinds of financial aid cannot be awarded universally without reference to type of institution or differences among students. Substituting grants for Stafford Loans, when high-risk students initially enroll, is the common sense approach because it will serve important economic and social goals and assure the continuance of federally guaranteed loa

Georgia
Student Finance Commission

Serving Georgia's Future

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 21.

RECEIVED BY
SENATE PERMANENT
SUBCOMM ON INVESTIGATIONS

MAR 13 1990

MAJORITY OFFICE

March 5, 1990

The Honorable Senator Sam Nunn
110 Russell Building
Washington, DC 20510-6050

Dear Senator Nunn:

This is in regard to the investigation of the guaranteed student loan program being conducted by the Senate Permanent Subcommittee on Investigations. I share most of the concerns you and others have raised at the subcommittee hearings, but I am writing to take issue with a couple of points which I am told were made at a recent hearing.

I am alarmed by the remarks attributed to you in several accounts of the Subcommittee's hearings to the effect that the student loan program is irreparably broken. I totally disagree with that point of view and will discuss below some of the good things happening in student loans.

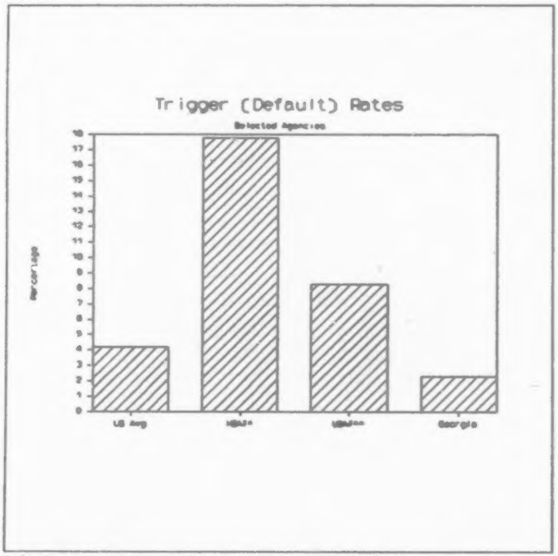
However, even if one accepts the argument that the student loan program is a shambles, it is still necessary to repair the flaws in U.S. postsecondary education which have led to the loan program problems. Unless we improve or replace the existing mess in school licensure and accreditation, the loan program will not work. But neither will a national service program. Furthermore, regardless of the monetary costs to the government of the current program abuse, the human costs of abuse must be curtailed.

There is however, plenty of good happening in the student loan program. Much of the good - including significant improvements in default rates among many state agencies - is obscured by the dominance of a few large guarantors, primarily those who market nationally, who are not doing well. Again, as your subcommittee looks at ways to either improve the student loan program or replace it with something else, I hope you will recognize that many state administered programs are doing well.

2082 East Exchange Place, Suite 200 Tucker, Georgia 30084 (404) 493-5412

Senator Sam Nunn
March 6, 1990
Page #2

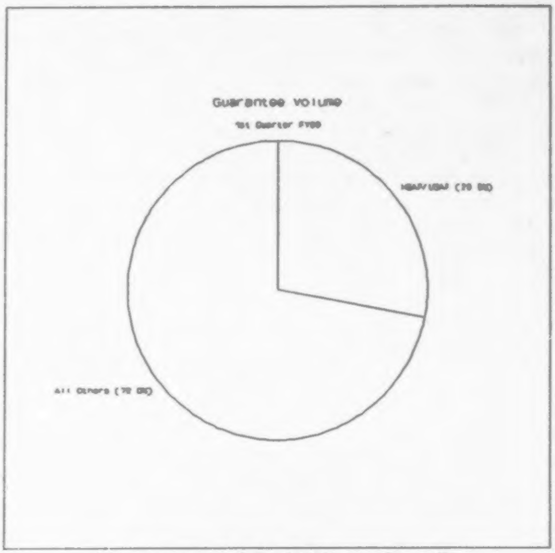
A group of my colleagues who have styled themselves The Education Assistance Managers (TEAM) have recently released a privately compiled report containing far more recent data than is generally available from the U.S. Department of Education. I am enclosing Exhibit I from that report, a table of the so-called "Trigger Rates," one of several measures of cumulative net default rate, by guarantee agency. The intent of TEAM was to emphasize that many guarantee agencies have reduced their default rates in recent years My point is to emphasize that the two nationally marketed guarantee agencies which accounted for 28 percent of all loan guarantees in the first quarter of this year, had default rates 2-4 times the national average!



The default rates of the national guarantors (middle bars) are above average and even further above that of a typical state like Georgia.

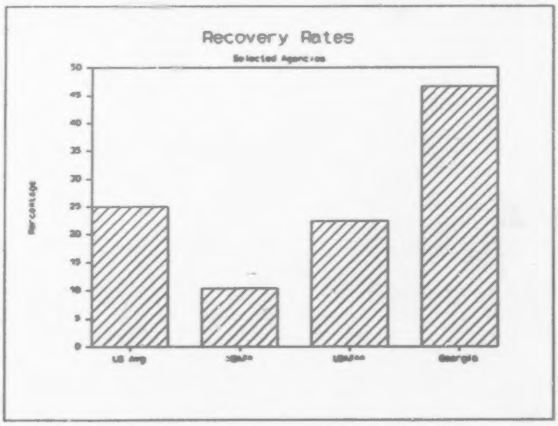
***HEAF-Minnesota and other**
****USAF-Other**

Senator Sam Nunn
March 6, 1990
Page #3



With 28 percent of the total loan volume, the national guarantors' high default rates drive up other guarantors.

Another illustration from the same TEAM report is attached as Exhibit IB and is a table of "Recovery Rates by Guarantee Agency." This is the percentage of already defaulted loans which guarantee agencies collect after paying the lender's claim. Again the leaders are certainly not among the large national guarantors.



Obviously, I think the data indicate the Federal government and the U.S. taxpayer would be better served by focusing reform efforts on the national guarantors, as well as abusive schools, and encouraging the single state agencies. While that may seem a self-serving position for me, it is one I believe is supported by the facts.

I do not believe the uninhibited reign of free market principles works when applied to the marketing of government subsidized programs. It does not work because key participants are shielded from serious risk by the government subsidy. Yet, I repeatedly see the "free market" philosophy applied to justify the continuing heavy marketing efforts of the national guarantors. Similarly, the free market philosophy is applied to justify using government subsidized funds to make school owners rich at the expense of the uninformed poor.

Frankly, I believe the data support my contention that Federal interests are best served by a partnership with state related agencies which are closely supervised by Governors and state legislatures. After all, education is still primarily a state function and people within state government are very well attuned to the educational needs, opportunities, and problems in their states. In fact the states continue to contribute far more financial resources to provide higher education than does the Federal government and, thus, the Federal government really ought to try harder to dovetail its efforts with the states'.

I hope the above information is helpful to you and other members of the Senate as you continue your efforts to find a student assistance delivery system that will work as intended for everyone.

Sincerely,

Stephen Dougherty
Executive Director

SD:sw

c: David Buckley

EXHIBIT I

Trigger Rates by Guarantee Agency

STATE	TRIGGER RATES			
	1986	1987	1988	1989
ALABAMA	11.8	9.7	7.8	6.4
ALASKA	0.7	1.6	1.1	1.9
ARKANSAS	2.4	1.2	1.4	1.5
CALIFORNIA	(c)	(b)	3.9	4.4
COLORADO	5.0	3.9	2.5	4.0
CONNECTICUT	2.7	(a)	1.2	1.6
DELAWARE	1.7	1.1	0.6	0.5
D.C.	(c)	(c)	(c)	(c)
FLORIDA	9.7	7.1	1.8	2.6
GEORGIA	2.9	2.9	1.8	2.3
GLHEC, WISCONSIN	4.9	3.6	3.0	3.2
HEAF, D.C.	6.9	11.4	8.0	5.0
HEAF, KANSAS	9.4	7.5	9.7	17.8
HEAF, MINN/OTHER	8.5	(c)	12.9	13.9
HEAF, NEBRASKA	7.1	4.9	4.7	4.2
HEAF, WEST VA.	14.2	13.9	18.1	13.9
HEAF, WYOMING	4.5	4.8	3.9	4.1
IDAHO	8.5	6.3	2.2	3.1
ILLINOIS	(b)	(b)	4.9	4.1
INDIANA	2.5	2.4	3.0	2.2
IOWA	3.4	1.1	1.3	2.4
KENTUCKY	4.9	4.8	2.5	3.3
LOUISIANA	12.9	7.8	3.6	7.2
MAINE	4.0	2.3	1.2	2.1
MARYLAND	8.3	4.9	4.3	4.9
MASSACHUSETTS	(a)	(a)	3.4	1.6
MICHIGAN	5.8	2.7	2.7	2.3
MISSISSIPPI	(b)	5.1	4.9	5.0
MISSOURI	10.1	5.0	5.1	5.2
MONTANA	6.7	6.1	4.2	5.0
NEVADA	11.8	9.6	6.6	
NEW HAMPSHIRE	3.6	2.2	2.3	1.9
NEW JERSEY	(a)	(a)	1.6	1.4
NEW MEXICO	4.0	4.2	3.3	3.7
NEW YORK	(b)	(a)	3.0	3.7
NORTH CAROLINA	2.7	2.4	3.4	2.2
NORTH DAKOTA	(a)	3.7	3.3	4.9
OHIO	2.3	(a)	0.6	1.0
OKLAHOMA	8.4	8.3	7.9	6.5
OREGON	2.1	4.9	0.5	5.0
PENNSYLVANIA	(a)	(a)	2.0	1.8
PUERTO RICO	(a)	4.3	2.9	7.2
RHODE ISLAND	3.1	2.3	1.7	2.3
SOUTH CAROLINA	1.9	1.8	0.5	1.6
SOUTH DAKOTA	2.1	1.6	2.4	2.8
TENNESSEE	2.3	2.2	2.0	2.4
TEXAS	8.3	8.7	9.0	9.1
USAF, ARIZONA	18.5	10.9	6.4	5.0
USAF, HAWAII	5.5	3.9	6.0	4.7
USAF, OTHER	6.4	4.9	4.8	8.3
UTAH	4.1	1.9	2.3	4.0
VERMONT	2.1	1.3	0.7	1.5
VIRGIN ISLANDS	(a)	3.4	0.9	4.4
VIRGINIA	3.3	2.5	3.1	2.5
WASHINGTON	5.8	7.7	5.1	3.8
MEAN TOTAL	5.8	4.7	3.8	4.2

(a) 5.0 and under
(b) greater than 5.0 and less than or equal to 9.0
(c) greater than 9.0

EXHIBIT I B

Recovery Rates by Guarantee Agency

STATE	RECOVERY RATES		
	1986	1987	1988
ALABAMA	10.2	11.7	15.5
ALASKA	17.9	16.3	18.2
ARKANSAS	23.5	25.7	32.6
CALIFORNIA	13.2	18.1	22.4
COLORADO	11.0	14.9	19.7
CONNECTICUT	20.6	23.9	28.2
DELAWARE	36.6	41.6	48.5
D.C.	10.9	11.4	37.2
FLORIDA	6.9	10.8	17.9
GEORGIA	43.0	44.1	46.6
GLHEC, WISCONSIN	25.8	32.2	36.4
HEAF, D.C.	10.9	11.4	17.2
HEAF, KANSAS	11.4	12.5	13.9
HEAF, MINN/OTHER	12.6	9.5	10.3
HEAF, NEBRASKA	9.1	11.8	17.8
HEAF, WEST VIRGINIA	6.2	6.1	8.6
HEAF WYOMING	8.4	10.0	14.2
IDAHO	10.0	11.5	17.0
ILLINOIS	23.3	23.6	29.5
INDIANA	17.0	21.4	23.6
IOWA	10.7	15.0	20.0
KENTUCKY	5.2	10.5	16.9
LOUISIANA	19.3	18.3	22.3
MAINE	27.4	32.5	38.4
MARYLAND	20.2	24.0	25.0
MASSACHUSETTS	22.5	26.8	32.5
MICHIGAN	17.2	26.5	31.1
MISSISSIPPI	5.7	12.8	19.0
MISSOURI	8.6	13.1	14.2
MONTANA	11.4	13.3	18.3
NEVADA	18.8	19.7	22.6
NEW HAMPSHIRE	27.4	26.8	33.8
NEW JERSEY	26.2	30.8	36.8
NEW MEXICO	9.1	10.1	10.7
NEW YORK	24.0	27.0	31.2
NORTH CAROLINA	28.9	29.2	29.9
NORTH DAKOTA	4.6	8.1	12.2
OHIO	23.5	24.7	32.4
OKLAHOMA	19.6	19.8	24.5
OREGON	35.8	33.1	35.9
PENNSYLVANIA	24.7	30.2	35.1
PUERTO RICO	10.6	13.0	13.2
RHODE ISLAND	19.2	27.2	32.2
SOUTH CAROLINA	22.5	22.3	26.6
SOUTH DAKOTA	10.3	11.1	13.1
TENNESSEE	22.7	24.2	27.9
TEXAS	4.8	8.3	10.5
USAF, ARIZONA	8.5	13.2	19.3
USAF, HAWAII	10.6	15.0	14.6
USAF, OTHER	29.1	28.8	22.3
UTAH	26.0	34.3	38.6
VERMONT	24.3	28.3	33.8
VIRGIN ISLANDS	13.7	18.6	24.4
VIRGINIA	16.3	25.2	25.4
WASHINGTON	13.7	19.0	23.5
MEAN TOTAL	17.3	19.5	25.0

MRM
CPA

MARTIN R. MADSEN
CERTIFIED PUBLIC ACCOUNTANT

3930 West Monterey • Suite 121 • Chandler, Arizona 85226 • (602) 963-8194

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 22.

March 6, 1990

The Honorable Sam Nunn
Chairman, U.S. Senate Permanent Subcommittee on Investigation
United States Senate
Washington, DC. 20510

Dear Senator Nunn:

David Buckley, Chief of the Senate Investigative Subcommittee on Investigation, asked me to inform you of the current problems, issues, and challenges surrounding the administration of Title IV Federal funds at our nation's postsecondary educational institutions.

As an independent Certified Public Accountant, my staff and I serve over 75 colleges and universities in 20 states. Our practice is centered around the performance of Title IV Federal audits and financial aid consulting. We have created a nationwide network with school administrators, law firms, financial aid consultants, accrediting agency representatives, and United States Department of Education officials.

This very unique position has allowed me to actively participate in the enforcement of Title IV regulations on a nationwide basis. This report is important because you and your committee should be made fully aware of the issues that I have observed.

I have classified my observations into five (5) categories. If you have any questions, or if I could be of further help to your committee, please contact me.

Sincerely,

Martin R. Madsen

Martin R. Madsen
Certified Public Accountant

PART I

Problem:

The Federal Government is reimbursing private lenders for defaulted guaranteed student loans that were, in fact, never borrowed. Additionally, many student borrowers are not being provided accurate, timely collection services.

Background:

The Federal Government encourages banks and other lending institutions to provide educational student loans to eligible students by guaranteeing repayment to the lenders of all monies not repaid by students. As a condition for guaranteed repayment of the loans, the Federal Government requires lenders to perform and document due diligence collection procedures prior to submitting the loans for guaranteed repayment. The purpose is, of course, to ensure that all collection attempts from the student have been made and have failed prior to collecting from the Federal government.

Because of the cumbersome due diligence collection requirements, and cash reserve considerations, a majority of lending institutions sell the loan notes to outside collection agencies (commonly known as secondary loan markets). The loans are usually sold 30 to 45 days after the loan checks are cut by the lenders. It is not uncommon for these secondary markets to again sell the loans a third and fourth time to various agencies throughout the country. The plethora of secondary markets can and has created numerous errors, irregularities, and inefficiencies in the student loan collection process.

Examples:

The lack of accounting controls and \ or breakdowns in the transfer of loan information between original lenders and secondary markets have allowed the following errors:

1) Loan checks cut by lenders are not always cashed. Students may drop out of school, change plans, or simply never receive their loan check. Simultaneously, if the loan is sold to a secondary market (and the original loan check is never cashed), the system relies on the original lender to monitor the loan and notify the second, third, or fourth purchaser of the loan that the obligation should be cancelled.

   If not properly communicated, the original loan in question will attempt to be collected by the secondary markets. Since the student did not borrow the monies, no repayment is made. And if the student has moved and left no forwarding address, or if the student ignores collection notices, the due diligence collection efforts fail. The balance of the non-existent loan, along with a special interest allowance, is then submitted to the Federal Government for full collection.

2) Problems with student loan collection agencies have been well documented by national and local news media. Repayments of loans made by students (or by schools on behalf of the students) are sometimes never posted to the students account. In other cases, repayments are posted, but to the wrong accounts. It is not uncommon for repayments to be processed sixty to ninety days after payments have been made. These time delays cause unwarranted additional finance charges to students (and the Federal Government if the loan is later submitted for default collection). The poor service being provided by collection agencies has left students with little or no means for correcting these errors.

Until January 1, 1990, lenders of student loans were not required to have audits performed of their processing and collection systems. Nonetheless, schools are being held accountable for student loan default rates and many students have had their future ability to obtain credit unjustly taken away.

Comments:

The lack of accountability by lending institutions and the secondary loan markets is unexcusable. These errors will continue until the Federal Government acts to dissuade lenders from mismanaging student loans. The newly enacted audit requirement for lenders falls short of correcting these problems. Bonding requirements, a training and certification process, and guaranteed criminal prosecutions for all violators are needed to create an effective deterrent to future abuses by lenders and the secondary markets.

PART II

Problem:

The concurrent promulgation and enactment of new Title IV laws and regulations by the Department of Education is legally questionable. More importantly, Title IV laws and regulations are not being consistently enforced and \ or interpreted by the Department of Education.

Background:

Current Title IV reauthorization articles require new laws and regulations to be published by December 1, prior to the start of the effected fiscal year (i.e. at least seven months prior to the enactment date). However, the Department of Education has consistently issued new laws and regulations that take effect immediately, many of which are retroactive to the beginning of the previous fiscal year. The Department of Education often provides interpretations of new regulations several months after the regulations take effect.

The U.S. Department of Education is responsible for the enforcement of the Title IV laws and regulations. The Department of Education has ten (10) regional offices located throughout the country. These offices perform numerous enforcement duties, including on-site program reviews at schools, and the assignment of fines and penalties to schools that violate laws and regulations. It is now standard procedure for each of these regions to act autonomously in their enforcement and interpretation of Title IV regulations. This autonomy allows a wide array of human discretion that often produces very different, inconsistent, and unfair results.

Examples:

1) Because the Department of Education has not established standard fines and penalties for specific violations, it is not uncommon for two different schools to be cited for the same violation and receive different judgments from the Department of Education. One recently noted experience showed that one school was cited for retaining $6000.00 in excess cash in a Federal account and was fined $2000.00. Another school, in a different region, was cited for retaining over $400,000.00 in excess cash and was not assessed any fine.

   The number of citations, fines, and penalties imposed on a school is directly dependant upon the knowledge, experience, attitude, personal judgments, and geographic region of the official reviewing an individual school.

2) Because of the wide discretionary power given to the reviewing officers, many different private "financial aid consultants" have developed written history records of the officers that perform the reviews within the different regions. These history records attempt to identify the areas that each officer tends to emphasize during reviews in order to prepare client schools for upcoming reviews. Some of these consultants are former employees of the U.S. Department of Education.

3) Each of the regional offices provide technical assistance to participant schools. It is not uncommon to receive totally different rulings or interpretations on the same law from different regional offices. A recent example involved the question of whether or not students are required to report SLS (Supplemental Loan for Students) loan monies expected to be received on their GSL (Guaranteed Student Loan) applications. The answer to the question has a direct impact on the number of students that are eligible to receive both types of Federal loans. The Department of Education region number four (4) office answered no and the region number nine (9) office answered yes to this question.

4) Schools often cannot obtain timely technical assistance because the regional offices are not fully knowledgeable of newly enacted laws.

A recent example involves the Title IV regulation mandating a requirement for schools to implement in-house drug awareness programs. In reaction to the law, many schools purchased comprehensive drug prevention programs from outside firms. Later, the Department of Education further clarified the law by informing schools they would be in compliance with the law if they hung one (1) drug prevention poster at each campus.

A past example involves the enactment of the "professional judgement" regulations. From the inception, the practical application of these regulations was never fully understood by Department of Education staff and participating schools. The widespread confusion allowed the loss and\or misapplication of hundreds of thousands of Federal Title IV dollars. Despite the intent of the professional judgement regulations, many students that could not demonstrate a financial need were, nonetheless, awarded Federal monies. The regulations were withdrawn one year later.

At any given time, schools across the country are waiting for further clarification on previously enacted laws and regulations. As stated, it is not uncommon for the Department of Education to provide interpretations of new regulations several months after the regulations take effect.

Comments:

The simultaneous promulgation and enactment of new Title IV laws and regulations is illegal and irresponsible. The inconsistent interpretation and enforcement of Title IV laws and regulations diminishes the importance and effectiveness of these Federal laws. These issues bring into question the administrative capability of the Department of Education to effectively manage the Title IV funding process.

PART III

Problem:

The absence of a potential monetary liability decreases the quality of work performed by professionals serving the Department of Education. The current system encourages the advancement of individual self interest rather than the interests of students and the Federal government.

Background:

Most institutions that participate in the programs are required by Federal law to have an independent audit performed of the Federal funds at least once every two years. Institutions must solicit proposals from competing certified public accounting (CPA) firms and then pay the selected firm to conduct the audit. The auditor then compiles a report to be submitted to the Department of Education for review.

The audit function serves a vital enforcement role. The Department of Education relies on the audits as a means of ensuring that all schools are administering Federal funds in compliance with laws and regulations. However, if schools do not like the manner in which an audit was conducted, or do not like the contents of their auditors final report, they can choose to hire a different CPA firm to conduct future audits. This arrangement places an audit firm in a compromising position. CPA's can ensure repeat business and realize higher profits on Federal audits by performing a minimum amount of audit work and thereby citing client schools for a minimum number of infractions.

All schools participating in the Title IV programs must also be approved for membership with a nationally recognized academic accrediting agency. Schools must meet the academic standards of an accrediting commissions. These commissions perform reviews of school operations, staff, facilities, and curriculum. The Department of Education relies upon the accrediting agencies to ensure that participant schools provide adequate education to enrolled students.

Hundreds of different competing accrediting agencies solicit specific types of schools for membership. If a school feels that a particular agency is too strict, or if an agency denies membership to a school, the school can apply for membership with other competing agencies. Since accrediting agencies are funded through membership fees, this arrangement (much like that of CPA's) places accrediting agencies in a compromising position.

The Department of Education attempts to monitor the actions of CPA firms and the accrediting agencies. But, because of the enormous volume of professional firms and agencies that serve the postsecondary school sector, the Department of Education is only able to monitor a fraction of these professionals. Moreover, these professionals are not held monetarily liable for services that they perform.

Examples:

1) Malpractice lawsuits are a common occurrence in private industry. The monetary threat of malpractice forces CPA's to exercise and document due care in the performance of their services. However, the threat of malpractice to CPA firms performing Title IV compliance audits is virtually nonexistent.

The detection risk of poorly performed work is very low because: a) the complexity of laws and regulations make peer reviews by competing CPA firms very difficult, and; b) the Department of Education is able to review only a very small percentage of audit firms each year. Even if detected, firms performing poor quality work are not faced with monetary malpractice judgments. These firms are usually reprimanded by being asked to correct and reissue previously submitted audit reports. In extreme cases, which are very rare, CPA's may be subject to small fines by state accountancy boards.

CPA firms perform audits within many different industries. Common business sense would suggest that firms will exercise the greatest professional care in the industries that expose them to the greatest monetary liabilities.

2) The existing system protects and sometimes rewards firms and agencies that perform poor quality work. One example involves a school that hired two different CPA firms to perform Title IV audits. The schools first Title IV audit (performed by a CPA firm) disclosed no violations of Federal law. The school maintained the same personnel and the same accounting system during the next two years. However, the school hired a different CPA firm to conduct the next Title IV audit and that audit disclosed 19 serious violations of Federal law. These violations resulted in monetary fines and repayments being assessed to the school.

Until the issuance of the second report, administrators of the school had no indication that the school was not in compliance with Title IV laws. However, the Department of Education holds schools solely and completely liable for the administration of the funds. Even though the first CPA firm appears to have performed poor quality work, that firm will not be held liable for the actions of the school.

Although the first CPA firm produced a poor quality audit, the results of the second CPA's report resulted in monetary costs to the school. Today, state, private, and proprietary schools are facing huge budget restraints. Which of the two CPA firms do you think the school hired to perform the next (third) audit of the Title IV funds?

Comments:

The unfortunate reality is that some professionals are taking advantage of the system. Until the Federal government imposes monetary deterrents, these abuses are guaranteed to continue.

PART IV

Problem:

The enormous volume and complexity of the Title IV laws and regulations is overburdening our educators. The time and resources now required to administer Title IV programs has reached disproportionate levels. This trend threatens the current and future quality of education provided by postsecondary educational institutions.

Background:

During the 1980's, the regulations governing the Title IV programs have grown at unprecedented rates. Today, a majority of the responsibility to comply with program regulations rests with the educational institutions.

Large increases in financial aid staff, training, and equipment have occurred at all schools. It is not uncommon for a university to employ a staff of 20 full-time financial aid employees. Smaller institutions expend even larger percentages of overhead expenses to pay for program administration. In response to the growing burdens on schools, a multi-million dollar private industry has emerged. Hundreds of private financial aid consulting firms now exist across the country. National conventions, regional workshops, computer software, and on-site training are all part of the services promoted by these firms.

As a prerequisite to receiving Title IV funds, schools must also comply with the standards of national accreditation associations and state regulatory agencies. Compliance with these agencies requires implementation of policies and procedures in excess of current Title IV regulation requirements.

The impact on education is obvious. State, private, and proprietary postsecondary institutions are facing serious budget constraints. As the responsibilities and costs of program administration shift to these institutions, resources previously allocated to the primary function of education must now be diverted to financial aid program administration.

Examples:

1) In 1990, schools participating in the Title IV programs are required to perform tasks that have traditionally been the responsibility of other Federal agencies. The tasks include:

* Ensuring students proper registration with the Immigration & Naturalization Service
* Establishing a drug abuse awareness program
* Establishing a drug-free work place for employees
* Ensuring students compliance with Selective Service registration requirements
* Monitoring students previous loan repayment histories
* Monitoring the actions of banks offering student loans

These tasks originate from the requirements established or promoted by other government agencies, not from the pursuit of higher education.

2) The volume and complexity of the Title IV regulations is demonstrated by the current requirement of institutions to confirm the eligibility status of noncitizen students. The Department of Education issued a 40 page instruction booklet for this one regulation. The required tasks are outside the Institution's expertise. As such, schools must spend extra time and money to comply.

3) Another issue that further burdens schools is the enactment of new laws. Some Title IV regulations are made retroactive to the date of enforcement. Institutions then face a duplication of effort when required to redo work previously completed.

4) Financial Aid administration has become a recognized vocation. The thousands of pages of Title IV regulations and manuals published has created an information overload for schools. This excess mandates that institutions continually invest valuable resources for the recruitment and training of financial aid personnel.

Comments:

It is difficult to understand why the Department of Education no longer offers continuing education classes to existing participant schools. In 1990, the Department of Education announced that it will no longer publish a Student Aid Guide for schools. How can we hold schools accountable for enforcing laws when the Federal government does not supply schools with the tools necessary to learn, understand, and implement those laws.

This situation is beyond all reason. The attitude of many schools regarding financial aid is one of helplessness. Lawmakers must act to ensure that the education of students, not the enforcement of Federal regulations, remains the central responsibility of postsecondary institutions.

PART V - CONCLUSION

The fifth problem centers around the fraud and misuse of Federal Title IV funds by the institutions.

The most publicized abuse of funds comes from the proprietary school sector. Unscrupulous school owners have embezzled millions of Federal dollars. Some analysts estimate that 10% to 20% of all proprietary schools misuse Title IV funds. This minority of school operators now threaten to eliminate the entire population of career schools as our legislators search for a solution to the problem.

Abuses of Title IV funds are not limited to the proprietary sector. All types of misuses of Title IV acts have occurred at our nations state and private institutions. Low budgets, loose controls, and inadequate training of financial aid staff indicate the lack of importance placed on compliance with Federal regulations by these institutions. The lack of controls, coupled with the high volume of funds processed at these schools invite fraud and ensure misuse. It appears that the media and our lawmakers are more tolerant of these actions by state and private institutions than by proprietary schools. Faced with less of a public deterrent, misuse of funds at state and private institutions will most likely continue.

The design of the Title IV delivery and enforcement system is to blame for the current levels of abuse. As regulations have increased, enforceability has decreased. We have invited misuse by over regulating the programs. We have written volumes of laws without considering their enforceability or practicality.

Lawmakers, Department of Education employees, schools, students, banks, consultants and public accountants expend huge amounts of human effort and resources to comply with the system. At the same time, we have allowed self serving individuals to take advantage of the system. The current levels of dissatisfaction indicate that our efforts have, in the past, been misplaced.

The Department of Education has recently issued new regulations that create barriers for schools with high loan default and withdrawal rates to obtain Federal funds. These new regulations may discriminate against colleges located in lower class neighborhoods and against schools that attempt to educate students with low literacy levels. Nonetheless, most analysts view these regulations as a positive step toward making schools more accountable for their results.

Our country relies heavily on the education provided by all of the different types of postsecondary schools in existence today. We cannot afford to eliminate an entire sector of schools because of a minority of misusers. We must stop creating cumbersome new laws and work to improve the existing system.

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CALIFORNIA STUDENT AID COMMISSION
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GEORGE DEUKMEJIAN, Governor

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 23.

RECEIVED BY
SENATE PERMANENT
SUBCOMM ON INVESTIGATIONS
MAR 12 1990
MAJORITY OFFICE

March 9, 1990

Senator Sam Nunn
Chairman
Permanent Subcommittee on Investigations
SD-303 Dirksen Senate Office Building
Washington, DC 20510-1001

Dear Senator Nunn:

As the nation's largest state guarantee agency participating in the federally guaranteed student loan programs, and with more than $7.6 billion in total guarantees, the California Student Aid Commission observed with interest the recent hearings of the Senate Permanent Subcommittee on Investigations.

By focusing on the potential for abuse in the educational loan program by some schools more interested in profits than students, the disproportionate number of first-year proprietary students who default on their loans, and in highlighting program structural problems, such as weak institutional eligibility criteria, the subcommittee undoubtedly gained a deeper appreciation for some of the difficult issues facing the student loan program. Recognizing the increasing reliance on loans by low-income students, rising default costs, and the presence shabby schools which short change students, the California Student Aid Commission has been taking decisive action and calling for strong corrective measures over the past four years.

The Commission welcomes the opportunity to examine constructively the problems facing this vitally important program. It should be noted at the outset that the existing federally supported student loan program is fundamentally sound and should be continued. Each year hundreds of thousands of students are able to attend and complete undergraduate or graduate postsecondary studies with the help of low-interest educational loans. In fact, loans account for more than half of all student aid. The majority of those who borrow do repay their student loans, and most schools, lenders and guarantee agencies are in compliance with program laws and regulations. However, there are problems which must be addressed in order to protect students and taxpayers and to restore public confidence in the integrity of the program. The program can and should be reformed and set back on its intended course of helping to provide educational opportunity so that all citizens may participate fully in the nation's economy and society.

Through its recent dramatic action in the Omnibus Budget Reconciliation Act of 1989 eliminating eligibility for Supplemental Loans for Students (SLS) at schools with high default rates or for those students without a GED or high school diploma, reducing SLS loan limits, delaying SLS loan disbursement for first-year students and other measures, Congress made significant progress towards curbing some of the program's most serious abuses. The Department of Education's new default regulations also provide some help with new refund requirements, delayed certification of loans and eligibility restrictions after 1991 for high default schools. However, much work remains to be done.

With more than 680 schools participating in its program, including some 450 vocational proprietary institutions, the California Student Aid Commission believes that the critical factor in controlling program costs, stemming the rising tide of loan defaults, and restoring the balance between loan and grant aid is forceful regulation of institutional eligibility and educational effectiveness.

Put bluntly, this will require elimination from Title IV eligibility for all substandard schools and those of questionable educational value such as under-600-clock-hour institutions and correspondence schools. It means new and more rigorous state and federal standards beyond those of accreditation bodies, with augmentation by tough new state licensure -- steps California has already undertaken with recent legislation -- to ensure institutional accountability and effective consumer protection. Program eligibility should not be based upon institutional type, but rather on institutional performance. The elimination of substandard institutions from the loan program will provide greater consumer protection, end student exploitation, and sharply reduce the loss of taxpayers' dollars. That, in turn, could restore public confidence and begin a more productive cycle in which savings from the loan program could be reallocated to correct the current loan and grant imbalance, particularly among low-income borrowers.

Policing the loan program through compliance reviews and Limitation, Suspension and Termination (LS&T) actions has been very effective for the Student Aid Commission. During the past four years, we have taken LS&T actions against 30 institutions (29 proprietary schools and one lender). In two recent LS&T actions, both schools were also charged by the State Attorney General with various civil violations and are currently in court. One termination action involving a Los Angeles correspondence trade school where students borrowed $1 million per month while only three percent of them graduated, was based upon an audit by the U.S. Department of Education Office of Inspector General. Cooperation among state and federal agencies came about, in part, following a California Student Aid Commission sponsored compliance task force which included representatives from a wide array of state and federal agencies concerned with the loan program and consumer protection. In those instances where criminal activity has been involved in attempts to defraud the loan program, Commission investigators have worked with appropriate local law enforcement authorities to obtain convictions which often result in prison sentences and the recovery of funds.

The hesitancy of some guarantee agencies to take actions which would eliminate a school's participation in the programs is apparently based on the assumption that at least some recovery of liabilities may be possible if the school continues to operate. The Student Aid Commission is convinced that allowing substandard schools to continue to operate merely prolongs the exploitation of students and that continued operation does not result in recovery of assessed liabilities but only extends and expands the existing problems.

The Commission conducts about 150 on-site compliance reviews of schools and lenders annually. Among the most frequently cited practices are failure to make proper refunds, incorrect application of ability to benefit criteria, and certification of ineligible loans. These compliance reviews have resulted in substantial program cost prevention and recovery. The Commission has also stepped-up its collection efforts for defaulted loans through state and federal income tax offsets, in-house collections, the use of collection agencies and other measures. This has garnered $100 million in recoveries from defaulters in the past two years alone.

Such due diligence measures, however effectively carried out, can only come after the fact. In the instance of L.S. & T. actions, after hundreds or thousands of students have been victimized and many taxpayer dollars misused. Because most defaulters are first-year borrowers who drop out or receive skills marketable only for a minimum wage job, they are often unable rather than unwilling to repay a loan when it is due. This again leads to the conclusion that most loan program ills stem from a failure to limit institutional eligibility to quality schools, and to insist on educational effectiveness as a precondition of program participation. Therefore, the Commission recommends the following essential reforms:

- The Department of Education should reexamine the performance of accreditation agencies. The Department currently defers to the standards and judgments of accrediting agencies. As a result, those private agencies rather than the Department are determining the eligibility of schools for financial aid programs.

- New rigorous state standards above and beyond accreditation are essential. Reliance on non-governmental agencies more concerned with members' wishes than with protecting the interests of students has failed and must be augmented with tough new licensure standards by states to ensure institutional accountability and effective consumer protection. California has already taken such steps with the implementation of two new pieces of legislation:

  AB 1402 enacted the nation's toughest state consumer protection requirements for students attending short-term vocational schools. It requires all prospective students be given completion rate, placement and salary information for a school's recently enrolled and graduated students. Students may obtain a full refund up to five days after the start of any course, and all schools are required to use a pro-rata refund policy. The bill also prohibits untrue or misleading statements or changes in information relating to financial aid eligibility. It prohibits false or unfair advertising, recruitment and sales practices. The bill also establishes new standards of financial responsibility for schools which are more stringent than the federal standards.

  SB 190 moves the oversight of proprietary schools from the California State Department of Education to a new, independent agency. The bill requires all nationally accredited schools, including those eligible for financial aid, to meet the state's education quality and consumer protection standards and strengthens these standards. Accredited schools were previously exempt from state oversight. The bill mandates better information disclosure and clear tuition refund policies. It also requires all schools to meet high standards of financial responsibility to ensure that students will get refunds. The state must conduct school monitoring to ensure compliance and suspend licenses for those which fail. It also sets better standards for compliance reviews of out-of-state schools and branch campuses.

- Standardize school eligibility for all Title IV aid. The alarming abuses of loan aid by under-600-clock-hour institutions, and the excessive debt burden of students trained for minimum wage jobs, all argue for the elimination of such programs from all Title IV eligibility and the elimination of any accrediting agency that permits institutional course stretching as a response.

- Require all institutions to participate in at least two campus-based aid programs in addition to Pell Grants before being permitted to participate in the loan programs. This requirement would assure matching institutional aid funds before students could borrow, and will help assure greater balance between grant, work and loan aid. This requirement has proven extremely effective in awarding California's state funded aid and makes sense nationally.

- Reject the idea of separate proprietary school eligibility; restrictions should be based on institutional performance. Many proprietary institutions provide excellent training programs and play a critical role within postsecondary education. They should remain eligible for Title IV aid, but the substandard for-profit career "schools" should no longer be eligible to participate in any federal aid programs.

- Eliminate loan program eligibility for all correspondence schools. It is impossible to determine actual correspondence course length or when students drop out. The so-called "residency" component used by correspondence programs to justify their participation in Title IV loan programs is little more than a ruse to continue shoddy recruiting practices.

Better use must be made of existing student aid funds if we are to respond effectively to the pressing need for more grant and loan assistance. The institutional eligibility reforms outlined above will focus available resources on needy students at quality institutions, should result in substantial program savings by reducing default and other program costs, provide greater consumer protection, end the pattern of student exploitation, and sharply reduce the loss of taxpayer dollars while restoring public confidence in postsecondary education and the loan programs.

Restricting Title IV eligibility to only those institutions of proven quality will also help assure that scarce Pell Grant funds are not wasted either. This will help reduce dependence on student loans by first-year borrowers. The substantial loan program savings can be reallocated productively to help redress the current loan and grant imbalance, particularly among low-income borrowers.

The failure to enact needed reforms will lead to continued escalation of program costs; skyrocketing default claims, especially in the SLS program; dwindling public confidence and support for all loan programs; and the continued exploitation of students.

Thank you very much for the opportunity to provide input into your investigative process. If you need further information please do not hesitate to contact the Commission.

Sincerely,

Samuel M. Kipp III

Samuel M. Kipp, III
Executive Director

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[illegible]
1/29/90

Senate Permanent Subcommittee
on Investigations
EXHIBIT # 31.

STOLEN PROMISE: THE STUDENT

Small bank turns big-league by cashing in on student loans

By Ann Hardie
Staff writer

HORTON, Kan. — In the world of student loans, Citibank is king, with its gleaming corporate fortress standing tall among Manhattan's skyscrapers.

The prince is the Bank of Horton, nestled amid the wheat farms of northeast Kansas and the largest employer in a town of 2,100.

Citibank made $570 million in student loans in 1988, the latest year for which figures are available, according to the U.S. Department of Education. The Bank of Horton came in second, with $398 million.

The New York goliath lends mostly to students attending traditional colleges. The Bank of Horton, until recently, never met a trade school it didn't like — 80 percent of its student loan portfolio consists of loans to private trade school students.

Whereas Citibank can afford to hold onto most of its loans, the Bank of Horton cannot. It has made its money from the churn, selling its loans as soon as the ink dries. "The Bank of Horton doesn't know what its default rate is — I sell my loans," said Anthony Pizzuti, the bank's executive vice president.

While that practice has helped the Bank of Horton and its town, it has created a medium in which loan defaults germinate faster than Kansas wheat, student aid officials say.

"They are the bane of the student loan industry as far as I am concerned," said Stephen Dougherty, executive director of the Georgia Student Finance Commission, which administers student loan programs in the state.

"Their willingness to encourage lending at institutions not serving their students well is just unconscionable. They take all the cream and leave the taxpayer with the rest," he said.

Orlin Wagner/Special

Anthony Pizzuti
'Can't monitor if schools are lying'

The Bank of Horton balks at such criticism, in turn blaming the federal Education Department for allowing dishonest schools in the student loan programs. "I can't monitor if schools are lying to students," Mr. Pizzuti said. "If schools had a letter from the [U.S.] Department of Education saying they were eligible to participate, we felt it was discriminatory to say no."

He has a point. Even so, the Department of Education would like lenders to be more selective about the schools they do business with to help curb defaults.

"Lenders can help in this — not to make decisions about individual students, but look where the money is going in ways very similar to the way lenders look at mortgages, securities and cars," said Charles E.M. Kolb, deputy undersecretary for planning, budget and evaluation for the department.

An open-door policy made the Bank of Horton what it is today. With the farm economy going bust, the bank got into the student loan business with great verve in the early 1980s. It hooked up with the Higher Education Assistance Foundation, a loan guarantee agency looking to grow.

In tandem, they turned around a student loan in a few weeks, while it took other banks in Kansas two to three months just to process the paperwork. Word got out. School operators "who are in the business for money love quick turnaround," Mr. Pizzuti said.

Evidently. The bank made four new car loans in 1988. But it lent to 500 to 600 students per day that same year. Not that any of the loan officers actually see the students who borrow thousands of dollars each day. Applications come in by batches from schools nationwide.

The Bank of Horton's annual earnings climbed from $75,000 in 1981 to $1.4 million in 1989, Mr. Pizzuti said. Student loans account for 50 percent of the bank's assets, compared with 2 percent of Citibank's.

The Horton community is thankful for student loans. Bank employees number 250 today, compared with 15 a decade ago.

Three-quarters work in the student loan division, the site of a once-abandoned grocery store. The unassuming building hums with loans being processed on computers.

Orlin Wagner/Special

Finding its niche: The Bank of Horton in Horton, Kan., which rivals Citibank in making student loans, has infused the town of 2,100 with new vitality and become its largest employer.

The bank owns four buildings in the heart of town, sprinkled with freshly painted, renovated shops — financed with the bank's money. A dentist is working full time in Horton for the first time in a decade. A pizza parlor opened. Willie's Steak House reopened.

"The bank has meant safety and security — without that, we would have lost the farm," said Mildred Bowser, who works in the student loan division while her husband tends to their struggling dairy farm. "It would be a disaster if this business left Horton."

But Horton is having to change drastically to stay alive in the current market shakeout. The bank can't easily unload its loans to secondary markets anymore, and so it is cutting loose many of the schools that launched its path to financial prosperity. The number of loans it makes has dropped to about 250 a day, Mr. Pizzuti said.

In 1986, Horton made most of its loans to students attending trade schools with programs running less than a year. Today, fewer than 10 percent of Horton's loans are to students at these schools — "and getting lower every day," Mr. Pizzuti said.

Since July, the bank has stopped lending to at least 450 schools nationwide and about 15 in Georgia, most of which have approached the Georgia Student Finance Commission — the state's lender of last resort — about taking up the slack.

Today, the Bank of Horton's student loan portfolio consists mostly of loans to trade schools with programs running 12 months or more. About 35 percent of the loans are to students attending traditional four-year and two-year colleges, Mr. Pizzuti said. The bank is courting traditional colleges, including Morris Brown, Spelman and Georgia Southern.

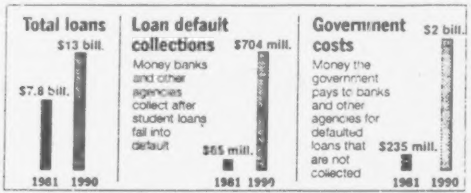
But as its loan volume drops, Horton is certain to suffer, too, at least for now. Critics say the bank is harvesting what it sowed.

But the Bank of Horton says it will weather both financially hard times and the criticism. "We would stay in the student loan business if we only broke even," Mr. Pizzuti said. "It's a niche we have put a lot of time and resources into. We have interests that supersede profits."

STOLEN PROMISE

The upward spiral in student loan costs

The federal government projects that defaults on student loans will cost taxpayers about $2 billion in 1990, eight times more than in 1981. In 1990, default costs are projected to eat up 44 percent of the student loan program's total costs.



Source: U.S. Department of Education

Cindy Jones-Hulfachor/Staff

Push for accreditation, loan funds often makes for strange bedfellows

By Ann Hardie
Staff writer

It was a match made in heaven. St. Mary of the Plains, a liberal arts college in Kansas, had accreditation. The American Truck Driving School out of Texas had students.

A friend introduced them. The North Central Association of Colleges and Schools, an accrediting agency, blessed the marriage. And the federal student aid flowed.

Odd couplings such as this have education officials rethinking the power accrediting agencies wield in deciding which schools receive federal student aid.

Accreditation serves as a stamp of academic approval. To be eligible for federal student aid, students must attend schools accredited by agencies approved by the U.S. secretary of education.

> *Why did St. Mary of the Plains hook up with the American Truck Driving School? "A deal was cut so the accreditation could flow."*
>
> **Dr. Janie W. Smith**
> Georgia Department of Education

But in the past decade, private accrediting agencies have approved many controversial relationships, and so has the U.S. Department of Education. The effect, critics charge, is to confer accreditation on schools that have not been comprehensively evaluated and to open the student aid spigot.

The owner of the Georgia School of Bartending in Atlanta, for example, bought the Nanny Institute of Beverly Hills, a California-based school specializing in child care, and made it a branch of his Atlanta facility.

At the time, the bartending school was accredited; the nanny school was not, according to accrediting officials. The pairing allowed the nanny school to gain accreditation and receive financial aid — since it's quicker for branches to win accreditation than unaffiliated schools.

"I think it was a little quicker," said Marcus Katz, an owner of the schools. "When we purchased the nanny school, it was within federal regulations to have it as a branch."

The courtship of St. Mary of the Plains began four years ago when the truck-driving school lost its accreditation, according to the National Home Study Council, the agency that originally accredited the driving school.

A St. Mary's official, Vince Laudick, said the college entered into the agreement because "we felt it was part of our mission — to get people off welfare rolls and off the unemployment rolls."

But Dr. Janie W. Smith, director of the Georgia division that regulates trade schools, retorted: "I'm just sorry, but I don't think truck driving is in their mission. A deal was cut so the accreditation could flow."

Dr. Smith has prohibited the truck-driving school, based in Elm Mott, Texas, from recruiting in Georgia.

And the U.S. Department of Education is challenging the arrangement because it says St. Mary's is not operating most of the truck-driving program.

North Central, the accrediting agency, "has been concerned about the relationship and has been communicating with St. Mary's about its future plans," said Dr. Steve Crow, the agency deputy director.

Mr. Laudick said 4,000 students are enrolled in the truck-driving school. About 90 percent receive federal student aid. Tuition is about $4,200. The liberal arts college has about 1,000 students, each paying $5,200 a year in tuition, Mr. Laudick said.

The college's student loan default rate is more than 50 percent. The truck-driving school's default rate is 76 percent, according to the Department of Education.

Accrediting agencies survive by charging annual fees to member schools. If they don't have members, they can't stay in business.

The country's hottest accrediting agency for trade schools — ACCET, the Accrediting Council for Continuing Education and Training — is under federal scrutiny because of its prolific performance in accrediting schools.

The number of trade schools receiving ACCET accreditation — and federal aid — has increased 70 times over in the past eight years, from six schools in 1981 to 430 main and branch campuses today.

ACCET's president, Dr. Larry K. Dodds, attributes the growth to increasing name recognition for his agency. He also acknowledges that some of the government's concerns may be valid. "But I don't think we have a corner on needing to make improvements in the accrediting market," he said.

Once a school is accredited, it is difficult to undo. Schools have due process rights, and they have not been shy about going to court.

Last fall, the Southern Association of Colleges and Schools (SACS) revoked the accreditation of some schools operated by Wilfred Academy, a cosmetology trade school chain. Its chairman and 18 other employees have been indicted in Florida on charges of misusing federal student aid funds.

But SACS reinstated the accreditation after the company protested through the courts. The schools remain open. With the litigation pending, the federal aid continues to flow.

Atl. Journal/Const. 1/29/90

Two-person team struggles to regulate Georgia's 200 private trade schools

By Ann Hardie
Staff writer

From her office window, Wanda Gray looks down on the Capitol Homes housing project where students victimized by dishonest trade schools live. To the right lies the Golden Dome of the state Capitol, where no one has done much to stop the abuse.

Ms. Gray is part of a team of only two at the Georgia Department of Education. She and Dr. Janie W. Smith are charged with regulating the state's 200 private trade schools, which have 60,000 students — a job equivalent to looking after the interests of all students enrolled at Georgia's public universities.

As trade school abuse flourished in Georgia in recent years, the already enormous task of regulating schools became impossible, legislators acknowledge.

"I don't blame Janie Smith or Wanda Gray at all for our problems," said state Rep. Marvin Adams (D-Thomaston), co-chairman of a House legislative committee appointed last year to study the trade school industry in Georgia. "I am not too sure we ever came face to face with the problem."

In fact, the Legislature never really got the chance. Dr. Smith and Ms. Gray repeatedly have appealed to the state Education Department to ask the Legislature for more money to increase staff to regulate schools. Repeatedly, they have been denied.

Where to get help

If you feel you have been ripped off by a trade school or have information about an unscrupulous trade school, here are some places you may turn:

■ Atlanta Legal Aid	(404) 524-5811
■ Georgia Department of Education	(404) 656-2452
■ Georgia Student Finance Commission	(404) 493-5401
■ State examining boards for cosmetology and barbering	(404) 656-3907
■ U.S. Department of Education Southeast Regional Office	(404) 331-0556
■ U.S. Department of Education hotline	1-800-MISUSED

The Department of Education cannot get enough resources to fund education reform programs in public primary and secondary schools. It won't even ask for funding to deal with problems in the private trade school industry.

"Frankly, the regulatory activities of [trade] schools is a role ... the department assumes because the law said it had to," said Ellis Bateman, an assistant superintendent who oversees the trade school division.

Mr. Bateman last year asked the department to include in its 1991 budget request $300,000 for more staff to regulate trade schools. The request didn't make it across the street to the Capitol.

But exposure to abuses in the trade school industry has convinced the House study committee that the time has come to reckon with the problem — and the Education Department's failure to solve it.

On Tuesday, legislation is expected to be proposed in the House Education Committee calling for fundamental change in the regulation of trade schools. The 42-page proposal calls for the regulation of trade schools to be moved to the Georgia Student Finance Commission, the state's student aid agency. A board of 12 appointed by the governor would administer the trade school division, and schools would pay for the regulation through fees, according to the legislation.

Although they have not shown much muscle in the past, the trade school lobbies will oppose the move.

"There have been some problems in the past with proprietary schools even getting loans through the Georgia Student Finance Commission," said Mike Davis, president of the Georgia Private School Association, which represents trade schools. "I don't think the commission would be too friendly to us."

John Spink/Staff

The regulators: Dr. Janie W. Smith (seated) and Wanda Gray constitute the state's regulatory force for 200 private trade schools; the Department of Education has refused to ask the Legislature for more staff for the job.

Atl Journal/Const
1/29/90

Brown College of Court Reporting: A school that makes the grade

By Ann Hardie
Staff writer

Georgia trade school owners point to highly regarded Brown College of Court Reporting on Peachtree Street to support their case for receiving federal student aid funds.

But the school's owner would just as soon part company. "Proprietary schools don't have a good reputation," said Forrest M. Brown, who founded the school 18 years ago. "I don't want to be one, but I don't have anything else to be right now."

Brown places 100 percent of its court reporting graduates in jobs; about 8.4 percent of its students default on their loans, according to the federal government.

Good trade schools such as Brown — which critics and advocates alike agree are the majority — make resolving the controversy engulfing the industry difficult.

While public outrage about abuse in trade schools mounts, the country has a growing need for non-traditional education. Between now and the year 2000, the majority of new jobs will require technical training, not baccalaureate degrees, according to the U.S. Department of Labor.

"Because students of [trade schools] include teenagers and people who have found their own employment lost through technological change, I wouldn't want to see the opportunity cut off," said Shirley Hufstedler, secretary of the U.S. Department of Education under President Jimmy Carter.

Public vocational schools do not have space for the million-plus students enrolled in private trade schools nationwide. Some students enrolled in Georgia trade schools complain that vo-tech schools have waiting lists or their programs are too crowded.

"I'm not lost in the crowd here," said Andrea D. Carter, 26, a student at Meadows Business College in Albany, where fewer than 5 percent of students default on their loans, according to the federal Education Department.

Ms. Carter had attended a public two-year college and a vo-tech school, but found both "moved too quickly so that I couldn't understand."

With no sure-fire way to separate the wheat from the chaff, the current crackdown in the trade school industry is certain to hurt some good schools. Federal and state officials hope those institutions can hang on.

In metro Atlanta, some trade schools have become part of the city's fabric by virtue of age and reputation. DeVry Institute of Technology, for instance, opened in 1969. Like Brown, the Art Institute of Atlanta and the Portfolio Center, a training center for art directors and graphic designers, have been around more than a decade. All have default rates of 20 percent or less.

Brown is the only accredited court reporting school in Georgia — private or otherwise. It was founded after Mr. Brown, a court reporter by trade, started a company to provide freelance court reporters to judicial circuits across the state. The only catch was court reporters were scarce.

So Mr. Brown started a school, which took a dozen years to turn a profit, he said. The school has about 270 students, and court reporting graduates command starting salaries of $24,000 and up, industry experts say.

Brown defies standard logic that high dropout rates and defaulted loans necessarily go hand in hand. Only about one-fifth of the students enrolled in the court reporting program finish, since the craft is tough to learn and takes years to master.

And Brown is not cheap — with annual tuition running about $4,300. "Over and over I emphasize the need for students to repay their loans," said Vera E. Brooks, Brown's financial aid director. "They can lose everything."

> *"I don't want to be [a proprietary school], but I don't have anything else to be right now."*
>
> **Forrest Brown**
> School owner

Geo

1/31/90

AJC

Bill puts 'teeth' into regulation of trade schools

By Ann Hardie
Staff writer

Convinced that many trade schools in Georgia are short-changing poor students and bilking taxpayers, the House Education Committee unanimously passed new legislation Tuesday to put "some teeth" into regulation of the schools.

The legislation would shift regulation of private trade schools from the Georgia Department of Education to the Georgia Student Finance Commission. That agency, which makes student loans, financially has more at stake.

In a two-part series that concluded Monday, The Atlanta Journal-Constitution reported the Department of Education has failed to regulate schools. The Student Finance Commission, on the other hand, is being compelled by federal law to make loans to students who attend schools with high default rates.

Rep. Bill Mangum (D-Decatur), the committee's chairman, said the series "set the stage" for the speed in which the legislation moved through the committee. He said the bill would get a good

BILL Continued on **D5** ▶

▶ Legislative news **D3**

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torney and notified police.

Bill puts 'teeth' into regulation of trade schools

▶ Continued from **D1**

hearing in the full House.

Mr. Mangum said House Speaker Tom Murphy (D-Bremen) had not seen the legislation, but "supports the concept of correcting those atrocities."

Sensing the legislation was nearly a done deal, the state's chief trade school lobby relented.

"The committee is sold. We just want to be treated fairly," said Mike Davis, president of the Georgia Private School Association, which represents 43 for-profit trade schools in Georgia.

Mr. Davis and his colleagues opposed the move because they say the finance commission has not been receptive to trade school students in the past.

The commission, a quasi-state agency, makes loans to students attending post-secondary schools. Federal law mandates that loans must be available to students. As a result, the commission is having to make more loans to trade school students, who as a group, are high defaulters. Without tougher regulation, the commission could end up losing money on those loans.

While acknowledging the concerns of trade school owners, Mr. Mangum said "legitimate schools are going to be far better off."

The legislation extends to all private trade schools receiving state or federal student aid, including cosmetology schools, which currently fall under the secretary of state's purview.

Under the bill, the governor will appoint a 12-member board to administer the oversight of the new division. The board will consist of one member from each congressional district and two at-large members. Currently, two people oversee about 200 schools operating in the state.

Furthermore, instructors must be trained in the fields they teach. For example, computer data instructors must have some training in computers, which sometimes is not the case, the committee said.

The legislation is popular, in part because it does not call for additional resources from the state treasury, legislators say. Instead, the expense of running the new division will be passed along in the form of fees to schools operating in the state.

"This is a business deal," said Rep. Marvin Adams (D-Thomaston). "This is not a burden on the taxpayer."

STOLEN PROMISE: THE STUDENT LOAN SQUEEZE

S. 709

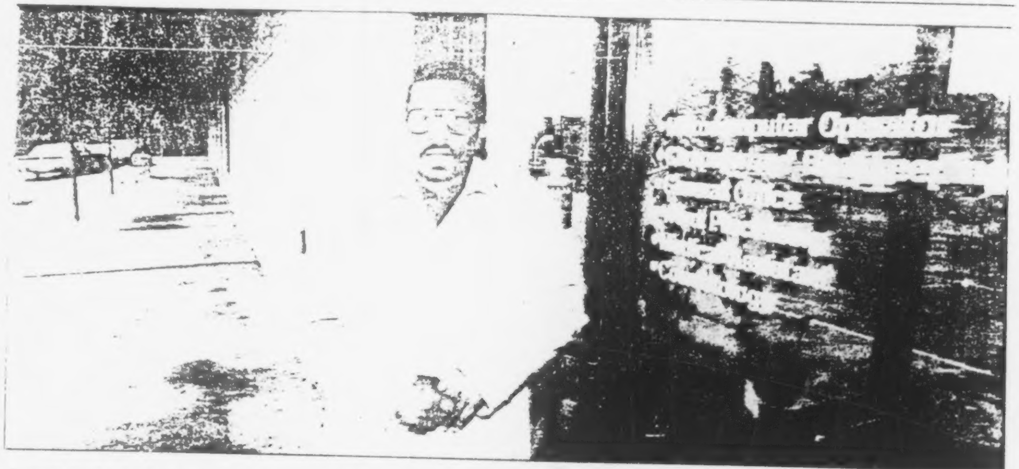
DREAMS IN DEFAULT

Recruiters peddle trade school classes to poor as steppingstone to better life

"Listen, young lady, you have two children and no husband. What are you ever going to do with your life? When was the last time you went to a party with your hair done? Felt good about yourself?"

"You could get a grant to learn to do hair in your own home. It's on the government. It's a gift. You'll probably have to borrow a little money. You'll have to pay it back. Maybe $50 a month. Heck, you could make that on one haircut alone."

— Pitch from an Atlanta trade school recruiter



Jonathan Nawton/Staff

A recruiter who quit: James H. Davis Jr., outside the now-defunct United Business Institute, **became disillusioned and quit his job after five months.**

By Ann Hardie
Staff writer

In the back rooms of many trade schools throughout Atlanta, telemarketers place call after call to the city's poorest residents. Following a script designed to instill hope, they sell trade schools as the avenue to a better life.

Detecting the least bit of interest, they call out the next team — recruiters — to make the hard sell. "It's extremely easy to sell to these people because, you see, I sell dreams," said Rony E. Chinchilla, a recruiter.

And so he goes where dreams are often all that people can afford — to housing projects, soup kitchens, shelters for the homeless and welfare lines.

Lawmakers say the likelihood of abuse increases when the size of a recruiter's paycheck is tied to the number of students he enrolls. In a recent job, Mr. Chinchilla received $150 for every student he signed up, he said.

U.S. Secretary of Education Lauro F. Cavazos has proposed legislation banning commissioned recruiters such as Mr. Chinchilla at schools receiving federal student aid. The bill is pending in the U.S. Senate.

"Do proprietary schools recruit in a way that may not be as ethical as we'd like them to be? I think some of that occurs," said William Weaver, past president of the Georgia Private School Association, which represents 43 trade schools.

But for many undereducated students, trade school recruiters are the only ones who reach out at all. Traditional colleges compete for the best students. Georgia's public vocational institutions don't recruit as aggressively.

Trade school owners say they are educating those turned away by everyone else and they have to be aggressive marketers to turn a profit.

To entice students, trade schools offer everything from free computers to babysitting to briefcases. Many advertise on television, scheduling commercials when unemployed adults most likely will be watching — daytime soap operas, sitcom reruns and old movies.

Trade schools also compete vigorously for recruiting talent, offering better commissions and more money. But the schools often don't keep their word, and recruiters often roam from school to school, Mr. Chinchilla said.

Some become disenchanted. James H. Davis Jr. of Stone Mountain says he stopped recruiting for United Business Institute in Decatur after five months because he did not believe the school was helping students.

"What really began to bother me is that I was taking advantage of low-income people and all they were going to get out of it was debt," said Mr. Davis, 42, who quit recruiting in July and now works in sales for a direct mail advertising company.

He said he was told to go after poor students, especially those on welfare, because they easily qualified for government aid.

"Your eyes kind of lit up when you walked into a home and saw a woman on public assistance with a child or two," Mr. Davis said. "You want to believe you are helping people find a way out — I grew up in a project myself. I kept looking for the brighter side, but it got very hard to see."

Mr. Chinchilla also recruited for United Business Institute and its affiliate, Ultissima, which both closed in October, leaving more than 200 students struggling to get refunds. He is now recruiting in the Southwest, a friend said.

While in Atlanta, Mr. Chinchilla said he sometimes worried that he had enticed students into taking loans they couldn't repay. But he had his own debts, he said.

"I am pressured to make my sale to eat," he said. "And there is also that little bit of greed in all of us that takes over."

atl Const. 1/28/90

Was school closing 'act of God' or fraud? Lawsuit will decide

By Ann Hardie
Staff writer

Karen M. Cooley attended a program for single parents at the Martin Luther King Jr. Center for Nonviolent Social Change in 1985.

There, a center official told her about Southern Vocational College, a trade school offering business education. Ms. Cooley enrolled in a 12-month computer course.

Six months later, the school disappeared.

Even so, the school's owner continued to deal with state officials as if he were still in business in the city. Ms. Cooley defaulted on a $2,350 student loan, and the federal government seized her income tax refund as part of an effort to get its money back.

Those are the known facts.

The owner described his departure as "an act of God." Ms. Cooley says she was ripped off. She sued the owner, the Rev. Lawrence F. Haygood Sr., and three other employees in August for alleged fraud, seeking $50,000 in damages.

However the case comes out, it illustrates the whimsical nature of many trade schools, which tend to be run as businesses first, then educational institutions.

Since 1985, more than 60 trade schools have closed in Georgia, almost all for financial reasons, state officials say. Often, students are the ones left holding the bag.

The Rev. Haygood, a Baptist minister in Tuskegee, Ala., opened an extension campus of Southern Vocational College in Atlanta in 1984, state records show. The main campus still operates in Tuskegee.

Southern Vocational College has received at least $1.1 million in federal loans since it became eligible to participate in the student loan program, according to the U.S. Department of Education.

State and federal laws require schools that close to issue refunds to students. Southern Vocational College, which had about 20 students in Atlanta, did not, three students said. The Rev. Haygood said, "I am sure whatever was supposed to happen happened."

In a brief telephone interview, the Rev. Haygood said he had to leave Atlanta unexpectedly after a fire destroyed his Alabama school. "We just got burned down. When you get burned down, there is nothing you can do but try to regroup," he said.

But Ms. Cooley, state and local officials contend the school did not meet its commitments long before its sudden departure.

It operated for weeks without books and never received computers, Ms. Cooley said.

She alleges she was tricked into taking out a loan. She said a school official told her she was signing financial papers for a government grant.

"I wouldn't have borrowed that money to go to school," Ms. Cooley said. "[But] if I had received an education, I would have tried to pay it back."

Ms. Cooley, 33, was employed part time at Georgia State University while attending Southern Vocational College. She currently lives in subsidized housing and earns $155 a week working in a local jewelry store. She supports her 17-year-old son.

The U.S. government, which paid the lender when Ms. Cooley didn't, is determined to get its money. In April, the Internal Revenue Service intercepted Ms. Cooley's $523 income tax refund.

"I don't know what Reverend Haygood's intentions were when he came to Atlanta, but he pulled off an elaborate scheme," said Elizabeth R. Morriss, the lawyer who took on Ms. Cooley's case for Atlanta Legal Aid. "He is definitely a man the women at the King Center thought they could trust because of the fact that he wears a collar and is black."

The Rev. Haygood has refused further interviews because of the lawsuit, his attorney said. In his answer to the suit, filed in September, he denied Ms. Cooley's allegations, charging the suit "was brought for . . . harassment."

David Murray Jr. Special

Karen Cooley, outside the building that housed Southern Vocational College in Atlanta, has sued school officials, alleging fraud; the college closed six months after she enrolled in a 12-month program.

The case has put the King Center on guard. "We did not make Karen sign any papers," said Drucilla Tuggle, who ran the program Ms. Cooley attended. She did acknowledge, however, that she escorted the single parents to tour the school.

"The school was recommended to us because of the one in Tuskegee," Ms. Tuggle said. "We had no idea they moved until they were gone."

Neither did the city of Atlanta, the owner of the building in which the Rev. Haygood rented space. The school was constantly late with its rent payments and did not make the last one, city officials said.

It took state officials about eight months to learn of the school's departure, since the Rev. Haygood continued to correspond with the state as though he were still in Atlanta, records show.

"There are all kinds of reasons people want to keep licensure — they may want to come back sometime and open another school," said Wanda Gray, who oversees trade schools for the Georgia Department of Education. Ms. Gray said she never followed up with the Rev. Haygood.

"I knew where I could find him in case anybody ever showed up," Ms. Gray said. "Nobody ever did — until now."

The evolution of student aid

As part of his vision for a well-educated Great Society, President Lyndon Johnson gave college scholarships

In this series

The evolution of student aid

As part of his vision for a well-educated Great Society, President Lyndon Johnson gave college scholarships to the nation's downtrodden and a federally backed student loan program to the middle class

"So to thousands of young people education will be available, and it is a truism that education is no longer a luxury," Mr. Johnson said in 1965.

Sculpted over time, student aid programs today are but a shadow of what their creators envisioned:

The Johnson imprint

■ The Higher Education Act of 1965 was a milestone in that Congress approved federal scholarship aid for undergraduate students for the first time. With bipartisan support, the Guaranteed Student Loan (GSL) program, also created by the act, was designed to assist middle-income students.

In 1968, a loan program for trade school students was merged with the GSL program. Trade school students also were allowed to participate in federally supported work-study programs.

Liberals liked trade schools because they reached out to a segment public education had failed — uneducated minorities. Conservatives liked them because they paid taxes, touted the free enterprise system, and promised to help students find their bootstraps through practical skills training

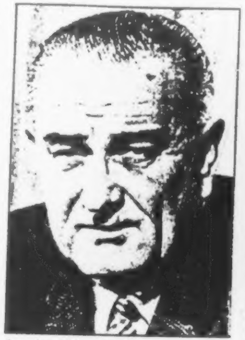
The Nixon imprint

■ The Basic Educational Opportunity Grant program, now called Pell grants after Sen. Claiborne Pell (D-R.I.), provided grants to needy students. As a matter of public policy, every needy college student would receive some help from the federal government.

The Senate expressed concern over recruiting practices and the quality of education in the trade school sector, but trade school students were still included in all student aid programs.

The Carter imprint

■ The Middle Income Student Assistance Act provided loans to help middle-income students with rising college tuition, a "historic expansion of federal assistance to education," President Carter said. Any student, regardless of his family's income, could take out government-backed loans. When interest rates soared, many well-to-do students and their market-savvy parents began using low-interest student loans for other purposes, such as purchasing cars or investing in the stock market.



Lyndon Johnson
Backed scholarship, loan aid

Claiborne Pell
Pushed grants to the poor

The Reagan imprint

■ Vowing to get the federal government out of the student loan business Ronald Reagan succeeded early in his presidency in cutting grants for the poor and replacing them with loans. Borrowing through student loan programs rose dramatically, but it became harder for the middle-income students Mr. Carter embraced to get low-interest loans. Congress has recovered some ground but federal aid hasn't kept pace with inflation or tuition increases

The Bush promise

■ The Bush administration has vowed to be friendly to federal student aid programs and help Congress restore integrity to the loan programs. "Our position is to provide access," said Dr. Leonard L. Haynes III, assistant secretary for post-secondary education of the U.S. Department of Education

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Atl Const. 1/28/90

In this series

Ann Hardie

Today: Federal student loan programs have become a multibillion-dollar swamp of fraud and waste where 44 cents of every tax dollar allocated this year will go to paying off defaulted loans.

Monday: Defaults in the student loan program, already costing the federal government $2 billion a year, may also become a burden on the state treasury. And right now, there's little Georgia can do to prevent it.

Next Sunday in the Perspective section: Is it reasonable to expect a low-income student to pay back $6,000 in student loans when the training he received qualifies him only for minimum-wage jobs? The dilemma facing Congress.

Ann Hardie, 29, researched and wrote this series over a period of five months. Ms. Hardie, a native of Roanoke, Va., and a graduate of the University of Notre Dame, has been covering higher education for The Atlanta Journal-Constitution since shortly after she joined the staff in 1987. This series was supervised by Hyde Post, assistant managing editor for local news, and copyedited by Sharon Bailey. Photo coverage was coordinated by Richard Fowlkes.

Where to get help

If you feel you have been ripped off by a trade school or have information about an unscrupulous trade school, here are some places you may turn

■ Atlanta Legal Aid	(404) 524-5811
■ Georgia Department of Education	(404) 656-2452
■ Georgia Student Finance Commission	(404) 493-5401
■ State examining boards for cosmetology and barbering	(404) 656-3907
■ U.S. Department of Education Southeast Regional Office	(404) 331-0556
■ U.S. Department of Education hotline	1-800-MISUSED

► Some schools make strange bedfellows **Page A16**

Atl Const. 1/28/90

ATL Journal/Const.
1/29/90

Under federal law, state can't just say no to high-risk loans

▪ *Kansas bank cashes in with its student loans. Page A7.*

By Ann Hardie
Staff writer

The banks started saying no to students at Arnold International University of Cosmetology last year. Aware that more than one-third of Arnold's students had defaulted on their loans, Georgia's student finance commission wanted to say no, too.

But it couldn't.

Federal law mandates that the commission make or guarantee loans to students who can't find any other lender. The idea was to protect needy students, many of them black, from discrimination. But that law could end up costing state taxpayers millions of dollars, and in the worst case, bankrupting the finance commission.

"I can't sleep at night," said Stephen Dougherty, executive director of the Georgia Student Finance Commission, the state's student aid agency. "We are one of the healthiest agencies in the country, but that could all go away if we are forced to make a lot of high risk loans.

GEORGIA Continued on A6 ▶

▪ STUDENT LOAN SQUEEZE / Last of two parts

participate?
in program?
must grant loan—
so many not participating?

▶ Continued from A1

"On the one hand, the federal government is making a lot of noise about cutting default costs, and on the other it says you have to make these loans to the students who will default. This epitomizes the contradictory nature of the public policy on student aid."

The law requiring states to find a lender for students who cannot find their own could become a life support system for unscrupulous private trade schools, which apparently account disproportionately for loan defaults.

And taxpayers — already paying for $2 billion in student loan defaults this year with their federal tax dollars — could be asked to cover much, much more with their state taxes.

It is a classic Catch 22. In trying to curb defaults, the federal government's efforts simply may shift more of the burden to the state.

Georgia's dilemma is one facing many states. As the federal government cracks down on private lenders, they are responding with their feet.

"In the next couple of years, you might be hard pressed to find a bank still in the program," predicted Randy E. Cawley, a vice president of Trust Company Bank of Augusta, which last year stopped making student loans for the first time in more than two decades.

The Augusta bank's move was extreme, but as banks move toward making more loans to those who are less needy and thus more likely to pay the money back, schools with a history of high default rates — and a lot of poor students — are scrambling to pin down the lender of last resort. In many cases, that lender is a state supported guarantee agency.

Guarantee agencies are the service brokers of the student loan industry. They make money from fees charged to students and the federal government. They pay lenders for defaulted loans, then are reimbursed by the federal government on a scale linked to their default rate. If the portion of their loans in default is less than 5 percent, they get back 100 cents on the dollar. If their default is more than 5 percent, the reimbursement goes down.

The nature of the students involved and the quality of the education they receive at many private trade schools have much to do with explaining why they are considered high default risks.

Bootstrap philosophy

Trade school students often are enticed by unscrupulous schools into paying too much tuition for too little training. They end up with minimal skills and jobs that don't pay enough to allow them to repay their loans. The loans go into default, and instead of finding a way out of poverty, the student ends up deeper in debt — and with a bad credit record to boot.

That wasn't what President Ronald Reagan intended when he pushed for fewer government grants to students and more federally backed loans. His idea was no free lunch.

To help slow the growth in student grants, the federal government would redirect its low-interest loan programs away from the middle class and toward the poor. They would get the training to find their bootstraps and pull themselves out of poverty. Then they would pay the money back.

It hasn't worked out that way.

With a clear path to the federal aid vault, the number of for-profit trade schools, also called proprietary schools, doubled during the past decade, federal education officials say. As the trade schools mushroomed, so did the amount of student loan money they consumed. In addition to the loans, many students continued to receive Pell grants, named after Sen. Claiborne Pell (D-R.I.).

Trade schools were soaking up 11 percent of the grant aid in 1980; last year it was 26 percent.

Some trade schools have set their tuition to match the sum of all the grants — plus all the loans — for which their students are eligible. For example, the cost of attending a trade school may be set to match the sum of a basic student loan (up to $2,625), a Pell grant (up to $2,300) — made to poor students — and what is called a Supplemental Loan for Students, known as SLS (up to $4,000).

A 'pretty sweet deal'

SLS loans, which carry a higher interest rate, were created for middle-class students. Congress was shocked to discover last year, though, that trade school students received more than 60 percent of the SLS loans made over the past three years.

In 1989 alone, according to a General Accounting Office study, trade school students accounted for 86 percent of the SLS defaults. Last fall, Congress took measures to stop the flow of SLS loans into schools with high default rates.

"Some people say the proprietary industry grew up when the federal money became available," said U.S. Rep. Pat Williams (D-Mont.), chairman of the House Subcommittee on Postsecondary Education. "If the money is available and there is a demand for the service, private industry is going to move on it."

House

Overall, about 33 percent of students attending trade schools default on their government loans, compared with 7 percent of those attending traditional four-

V–
33% trad
7% traditional

Michael [illegible]/Special

Vanessa J. Daniel, 36, completed the 11th grade, 3 children, single:
After getting a telephone call from a recruiter promising jobs, Miss Daniel says she enrolled in a six-month data entry course in late October 1988 at Jefferson Business College on Fairlie Street.
Miss Daniel obtained a government-backed loan from Ameritrust Bank in Ohio for $[illegible]. She attended the school about a month.
"Then all of the sudden — blank — no one was there," she said.
On Dec. 8, 1988, the Internal Revenue Service filed a lien in Fulton County Superior Court against the school for more than $1.1 million for non-payment of employment taxes. IRS seized the school's property on Dec. 8, and it was sold at public auction in January 1989.
Miss Daniel, who is unemployed, has missed the first three loan payments.
"I tried to call the bank, and they said regardless of the school closing, it was my responsibility to pay this money back," Miss Daniel said. She is pictured with her daughter, Stephanie.

Dianne Laakso/Staff

Darlene Y. Benton, 23, Columbia High School graduate, single:
Miss Benton signed up for a cosmetology course at Arnold International University of Cosmetology in October 1987. She received a government-backed loan of $1,313 from the Bank of Horton in Kansas.
She says she attended Arnold's for four hours — three hours of orientation and one hour of class time — before deciding to quit because of a scheduling conflict.
The school calculated a refund — $169.96 — which was sent to the bank to apply to the loan. Arnold's kept $923; the rest covered loan fees. The school has told Legal Aid its refund policy was clearly outlined in Miss Benton's contract. The state examining board that regulates cosmetology schools says it has no say over refund policies.
Miss Benton is in default on her loan.

[illegible] million, according to the U.S. Department of Education.

"I wouldn't want to paint a broad brush [illegible] all proprietary schools, but every community has some school that's gone bad," said U.S. Rep. E. Thomas Coleman, R-Mo.

Currently, the default rate at Georgia's guarantee agency hovers at around 4 percent. Most of the loans it guarantees are to students at traditional four-year and two-year colleges.

[illegible]

"only 5 percent are to trade school students," Mr. Dougherty said.

At the same time, trade school students account for an estimated 25 percent — about $10 million — of the annual student loan business in Georgia.

If the state's student aid agency were to guarantee most of the high-risk trade school loans in Georgia, it would go belly up in two years, Mr. Dougherty said.

The country's largest guarantee agency, the Higher Education Assistance Foundation (HEAF), has already discovered the down side of trade school loans.

"We were not looking at bankruptcy, but we were looking ahead to that implication down the road," said HEAF Chairman Richard C. Hauck. In 1988, he disclosed that the agency was losing a million dollars a week because of defaults on trade school loans.

Who loses if a guarantee agency such as HEAF, which has backed about $9 billion in outstanding student loans, goes under? Federal law does not address the issue, but federal and state officials suggest the taxpayer is the most likely loser.

Most states are worried — Texas more than most. That state's guarantee agency has been deluged with trade schools demanding service under the "lender of last resort" provision. The amount of loans the agency guaranteed jumped from $633 million in 1988 to $830 million last year. "What happened in Texas is exactly where we don't want to be," Mr. Dougherty said.

Some federal officials say states are getting their just desserts — they are having to make loans to students attending schools the states have failed to regulate.

State officials maintain they just followed the lead of everyone else who got into the student aid business. The idea was to make money — and the states have.

For many years, banks and other lenders had a "pretty sweet deal," one banker said. If the banks made loans to middle-income students with the banks' own money, the federal government promised to make good on loans that went into default. The government offered lenders a special subsidy on the loans to assure them of an attractive yield.

But then the creature Congress created turned on it.

Under President Jimmy Carter, any student could obtain a government loan, regardless of family income. With high inflation rates, many financially secure families got government-backed loans and invested them in the stock market or financed new cars. Borrowing more than doubled between 1978 and 1980, from $1.9 billion to $4.8 billion.

Schools wooed, then shunned

The 1980s brought a dramatic shift in public policy on the student loan program. It became more difficult for middle-class students to get loans, which became the chief vehicle for helping poor students further their education.

Because student loans are an entitlement, the government must make them available to anyone who qualifies. With no shortage of poor people, the players in the student loan program went into high gear.

Trade schools sprouted wherever there were poor students. Major lenders took advantage of economies of scale, beefing up their student loan portfolios with trade school paper. Struggling smaller banks got fat making loans to trade school students and then selling the loans off.

To keep the system efficient, students got their loans through the financial aid offices of their schools, which had relationships with banks, which had relationships with guarantors.

Guarantors, which are supposed to ensure that lenders collect on defaulted loans according to government regulations, weren't looking too closely because the federal government wasn't too picky.

At the same time, no one, including state and federal regulatory agencies, was paying much attention to whether schools were giving borrowers a quality education. Many were not. Students started defaulting on loans in record numbers.

In the mid '80s, the federal government began to fight back, demanding greater accountability across the board. It adopted cumbersome — banks say indecipherable — collection procedures lenders must follow to be reimbursed from the federal treasury for defaulted loans. It also reduced the subsidy paid to lenders.

Both measures dramatically cut into what lenders can make from the program, lenders say. "If I had to treat every loan portfolio the way I was being asked to treat the student loan portfolio, I don't think this bank would be in business six months," said Trust Company's Mr. Cawley.

Major lenders with a lot of money sunk into the student loan program are waiting out the storm. They like student loans for cross-selling purposes — give a student a loan, let him establish his credit, sell him a credit card.

But larger lenders are turning away trade schools — and trade school students. Many lenders with trade school paper are running credit checks on students.

The U.S. Department of Education recently told some lenders of last resort — including Georgia's guarantee agency — that they could turn away students who have negative credit ratings.

Given that the law states that students are to be assisted regardless of their financial background, some experts question the legality of the department's position.

"I do not understand where the department thinks it gets the authority to tell lenders of last resort that they can use negative credit ratings to decide not to give student loans, since the law doesn't permit the use of credit ratings in determining student loan eligibility," said Richard T. Jerue, staff director of the Subcommittee on Postsecondary Education for the U.S. House of Representatives.

But U.S. Department of Education officials applaud almost any measure to reduce student aid defaults.

"People have said, 'Aren't you really talking about redlining?' " said Charles E.M. Kolb, deputy undersecretary for planning, budget and evaluation for the department. "Absolutely not. The point is to preserve access to make these loans available to as many people as possible, but to ensure that the system works so that the opportunities are quality opportunities."

Amid the chaos and contradictions, everyone — from trade school owners to banks, students to states — is looking to 1991 for the magic answers. That is the year Congress will reauthorize the Higher Education Act.

The Bush administration and Congress alike say changes are going to be sweeping.

"We all have a stake in this system," said Dr. Leonard L. Haynes III, assistant secretary for post secondary education of the U.S. Department of Education.

Advisory Committee on Student Financial Assistance

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 32.

March 2, 1990

RECEIVED BY
SENATE PERMANENT
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MAR [illegible] 1990

MAJORITY OFFICE

Ms. Grace McPhearson
Staff Investigator
Permanent Subcommittee on
Investigations
United States Senate
100 Senate Russell Office Building
Washington, DC 20510

Dear Ms. McPhearson:

I am writing to correct several statements contained in staff testimony before a recent hearing of the Senate Subcommittee on Investigations. I think it is important to set the record straight for several reasons. This testimony mischaracterized several of my statements and, by doing so, left unfortunate and inaccurate perceptions of the role and positions of the Advisory Committee on Student Financial Assistance.

It is most important to correct the assertion in this testimony that the Advisory Committee "has avoided dealing with the proprietary school issue, because it was just too difficult." The primary reason that the Committee has not issued a set of recommendations on proprietary institutions is simple: congressional priorities have dictated the Committee's agenda and therefore, its allocation of resources. Congress mandated several studies and analyses to be completed during the first two years of operation. I provided you with these reports.

Since the Committee has not taken a position on the proprietary issue, which I made clear, my remarks represented my knowledge of data and studies on the subject. However, your attribution of a recommendation that proprietary institutions be treated differently is wholely incorrect. While I did discuss with you an approach that would treat all institutions applying for Title IV certification and eligibility differently, I did not suggest that such treatment be reserved for proprietary institutions alone. This approach would provide new institutions with temporary certification for a period of three or four years, during which time these institutions would be subject to more stringent reporting, audit, financial, and program review requirements. Such close scrutiny of all institutions in this category potentially could weed out problem institutions before they cost the taxpayer--and students--substantial amounts of money.

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An independent committee created by Congress to advise on student aid policy

Ms. Grace McPhearson
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Because your intention is to improve the Title IV programs, a goal shared by the Advisory Committee on Student Financial Assistance, I believe it is important that these inaccuracies--subtle as some may be--be corrected. The record should show that both the Advisory Committee and I have worked diligently to improve the programs and will continue to do so.

Sincerely,

Brian K. Fitzgerald
Staff Director

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COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

March 30, 1990

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 33.

Mr. Brian K. Fitzgerald
Staff Director
Advisory Committee on Student
Financial Assistance
7th and D Streets, S.W.
Washington, D.C. 20202-7582

Dear Mr. Fitzgerald:

Thank you for your letter dated March 2, 1990, concerning staff testimony at a hearing on abuses in Federal student aid programs before the Permanent Subcommittee on Investigations. I am pleased to have your follow-up comments on an issue that is obviously very important to both of us.

I have again reviewed your letter, the Subcommittee's staff statement, and my notes from our meeting on February 2, 1990. I have also consulted with Kim Wherry to verify the accuracy of those notes and my related statement. It is Kim's and my opinion that the staff statement accurately reflects our meeting.

Beyond that, I would like to assure you that your recent correspondence has been noted by the Subcommittee staff, and your further qualifications of the issues have been considered. Additionally, your correspondence will be added to the record. The Subcommittee values your input, as the Advisory Committee has done solid work in improving student financial aid programs. It was not our intention to degrade you personally in this matter, if in fact you feel that has occurred.

I do appreciate the time that you spent with Kim and me, sharing your opinions and experiences. I would hope that the Subcommittee can count on you and the Advisory Committee to work together in the future with the assurance that any "inaccuracies" will be avoided.

Again, thank you for your help and for sharing your thoughts with me.

Sincerely,

Grace T. McPhearson

Grace T. McPhearson
Staff Investigator
Permanent Subcommittee on
Investigations